



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **B**
STRUCTURAL AND COHESION POLICIES

Agriculture and Rural Development

Culture and Education

Fisheries

Regional Development

Transport and Tourism

**FAMILY FARMING
IN EUROPE:
CHALLENGES
AND PROSPECTS**

IN-DEPTH ANALYSIS

EN

2014





DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES
AGRICULTURE AND RURAL DEVELOPMENT

FAMILY FARMING IN EUROPE: CHALLENGES AND PROSPECTS

IN-DEPTH ANALYSIS

This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

AUTHORS

University of Kent: Ms Sophia DAVIDOVA

University of Aberdeen: Mr Kenneth THOMSON

RESPONSIBLE ADMINISTRATOR

Mr Francesco TROPEA

Policy Department B: Structural and Cohesion Policies

European Parliament

B-1047 Brussels

E-mail: poldep-cohesion@europarl.europa.eu

EDITORIAL ASSISTANCE

Mrs Catherine MORVAN

LINGUISTIC VERSIONS

Original: EN

ABOUT THE PUBLISHER

To contact the Policy Department or to subscribe to its monthly newsletter please write to:
poldep-cohesion@europarl.europa.eu

Manuscript completed in April 2014.

© European Union, 2014.

This document is available on the Internet at:

<http://www.europarl.europa.eu/studies>

DISCLAIMER

The opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

Reproduction and translation for non-commercial purposes are authorized, provided the source is acknowledged and the publisher is given prior notice and sent a copy.



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES
AGRICULTURE AND RURAL DEVELOPMENT

FAMILY FARMING IN EUROPE: CHALLENGES AND PROSPECTS

IN-DEPTH ANALYSIS

Abstract

This note discusses the definitions, challenges and future prospects of family farming in the EU. Some challenges, such as market volatility and climate change, are general for all EU farm structures, but some are specific to family farmers: their smallness, lack of power within the food chain, and inter-generational farm succession. However, family farming – often by pluriactive and/or diversified households – is likely to continue to dominate EU farm structure in the foreseeable future, despite trends towards larger family and non-family farms. Action at both EU and national policy levels could help towards a more sustainable and resilient family farm sector.

IP/B/AGRI/CEI/2011-097/E027-SC2

April 2014

PE 529.047

EN

CONTENTS

| | |
|---|-----------|
| LIST OF ABBREVIATIONS | 5 |
| LIST OF TABLES | 7 |
| LIST OF FIGURES | 7 |
| 1. EXECUTIVE SUMMARY | 9 |
| 2. INTRODUCTION | 13 |
| 2.1 Purpose of the Note | 13 |
| 2.2 Statistical sources | 14 |
| 3. THE IMPORTANCE OF FAMILY FARMERS IN THE EU | 15 |
| 3.1 Who are the family farmers? | 15 |
| 3.2 Statistical evidence of the scale of family farming in Europe | 18 |
| 3.2.1 All sole holders | 18 |
| 3.2.2 Sole holders operating with predominantly family labour | 23 |
| 3.3 Strengths of family farmers | 26 |
| 3.4 Roles of family farming in Europe | 27 |
| 4. CURRENT AND NEW CHALLENGES FACING FAMILY FARMERS IN EUROPE | 29 |
| 4.1 Overview | 29 |
| 4.2 Economic challenges | 30 |
| 4.2.1 Land | 30 |
| 4.2.2 Labour | 31 |
| 4.2.3 Capital | 32 |
| 4.2.4 Competitiveness | 32 |
| 4.2.5 Weak bargaining power in the food chain | 33 |
| 4.3 Social challenges | 34 |
| 4.3.1 Succession | 34 |
| 4.3.2 Gender challenges | 35 |
| 4.4 Environmental Challenges | 35 |
| 4.5 Demographic challenges | 36 |
| 4.6 Territorial Challenges | 38 |
| 4.6.1 Mountain and hill areas | 38 |
| 4.6.2 Remote underdeveloped areas | 38 |
| 4.6.3 Peri-urban areas | 39 |
| 5. FUTURE PROSPECTS FOR FAMILY FARMING IN EUROPE | 41 |
| 5.1 Expected future adjustments of family farming in the EU | 41 |
| 5.1.1 Factors leading towards larger family and non-family farms | 42 |
| 5.1.2 Potential factors to counter the move from family to non-family types of farming organisation | 46 |
| 5.2 The role of policies: CAP and national | 47 |
| 5.2.1 Some national policies affecting the future prospects of family farming | 47 |
| 5.2.2 CAP Pillar 1 and 2, and non-CAP EU policies | 49 |
| 6. CONCLUSIONS | 53 |

REFERENCES

LIST OF ABBREVIATIONS

| | |
|-----------------|--|
| ANC | Area facing Natural Constraints |
| AWU | Annual Work Unit |
| CAP | Common Agricultural Policy |
| IYFF | International Year of Family Farming |
| COMAGRI | European Parliament Committee on Agriculture and Rural Development |
| EC | European Commission |
| ESU | European Size Unit |
| EU | European Union |
| EUROSTAT | Statistical Office of the European Union |
| FADN | Farm Accountancy Data Network |
| FAO | Food and Agriculture Organisation of the United Nations |
| FF | Family farmer |
| FSS | Farm Structure Survey |
| Ha | Hectare |
| LFA | Less Favoured Area |
| MS | Member State |
| NMS | New Member State |
| OGA | Other Gainful Activity |
| PO | Producer organisation |
| SAFER | Société d'aménagement foncier et d'établissement rural |
| SO | Standard Output |
| SSF | Semi-Subsistence Farm |
| UAA | Utilised Agricultural Area |
| UK | United Kingdom |

LIST OF TABLES

Table 1:

| | |
|--|----|
| Shares of family labour in total farm labour in full-time equivalents (AWU) on commercial farms covered by FADN in EU-25, 2008 (%) | 24 |
|--|----|

LIST OF FIGURES

Figure 1:

| | |
|---|----|
| Depiction of structures in European farming | 17 |
|---|----|

Figure 2:

| | |
|---|----|
| Share of UAA under sole holders farms in EU MSs, 2010 (%) | 19 |
|---|----|

Figure 3:

| | |
|---|----|
| Proportion of family farms according to farm size in ha in the total number of farms in the EU-28 and MS sub-groups, 2010 (%) | 20 |
|---|----|

Figure 4:

| | |
|---|----|
| Proportion of total UAA in farms of 100 ha and over (total and family farms) in selected EU MSs, 2010 (%) | 21 |
|---|----|

Figure 5:

| | |
|---|----|
| Proportion of family labour in total regular farm labour in full-time equivalent (AWU) according to size of the farm in ha in selected EU MSs, 2010 (%) | 22 |
|---|----|

Figure 6:

| | |
|---|----|
| Proportion of family holdings larger and smaller than 5 ha run by a farmer older than 55 in selected EU MSs, 2010 (%) | 37 |
|---|----|

Figure 7:

| | |
|---|----|
| Potential future changes in farm structures in the EU | 45 |
|---|----|

1. EXECUTIVE SUMMARY

Background and objectives

This Briefing Note has been prepared for the European Parliament's Committee on Agriculture and Rural Development (COMAGRI) in relation to **the UN International Year of Family Farming (IYFF), 2014**. The note has three main objectives as defined in the technical specification:

1. Definition of the concepts of family farming and an overview of the main figures available.
2. Examination of the current and new challenges in economic, demographic, sociological and territorial terms.
3. Analysis of the future prospects for family farming.

The data used has been derived from the EU's Farm Structure Survey (FSS) and Farm Accountancy Data Network (FADN). The increase in the minimum FSS holding area threshold after 2007 excluded many small family farms in some Member States (MSs), and impedes the analysis of the sector over time. The FADN samples only commercial holdings, so the very small and semi-subsistence family farms are excluded. This means that the family farm sector in Europe is larger than numbers suggest.

Family farming is undertaken by large, small and very small (e.g. semi-subsistence, or "lifestyle") farms, run by farmers engaged full- or part-time in agriculture. Some farm alongside other gainful activities and rely on diversified income sources.

Family farming is a key element of the European Model of Agriculture, as identified in the Luxembourg European Council in December 1997. The Model must embrace a diversity of **different production types**.

Definitions and Importance

"Family farm" and "family farmer" may be defined in several ways, both within the EU, and world-wide. Definitions can be based on **share of farm labour**, on **ownership and control** (and thus succession between generations), on **legal status** (sole holders) or on who bears the **business risk**.

In 2010, sole-holder family farms accounted for 85 per cent of all EU farms, for 68 per cent of total Utilised Agricultural Area (UAA), and for 71 per cent of total Standard Output (SO). However, their importance varies largely across the EU Member States (MSs). Non-family farms cultivated over half of UAA in Slovakia, the Czech Republic, Bulgaria, France and Estonia, and produced four-fifths of SO in the Czech Republic and Slovakia. Sole-holder family farms are mostly under 5 ha UAA in the EU-15 South and in the NMS-13, but are much more evenly distributed in size (to over 100 ha UAA) in the EU-15 North West. **Family farms in Europe are most definitely not all "peasant" farms.**

Family labour is a key factor for the flexibility and resilience of family farming, but its share in total labour depends on the size of the farming operation, on the crop/livestock choice, and on whether the farm is organic or conventional.

Family farmers are often part-time, and **frequently pluriactive and/or diversified**. Thus the importance of farming in total household income varies widely, from being almost the sole source to being only a minor component.

Family farmers make multiple contributions to the EU and its rural economy. They are a main contributor to **food security**, providing an uninterrupted supply of high-quality diverse produce; enhance the vitality of the **rural economy**; have strong interests in long-run **environmental care** of the land. Non-family farms also contribute in these areas. However, either because of their sheer numbers, or often their smallness, the contribution of family farms is more noticeable.

Challenges to EU Family Farming

The main **economic challenges** to family farms are **access to farming resources** such as **land** and **capital**, and **access to markets**, particularly in terms of **bargaining power in the food chain**. Access to land is restricted by the small proportion of land coming onto the market, by the high price of land, and by the need for suitably located and serviced areas. Access to financial capital, especially via formal channels, is often expensive for small farmers, who are unwilling to risk their land as collateral. Moreover, family farms need to compete not only in terms of productive efficiency (scale, productivity) but also in terms of **innovation and entrepreneurship**.

One of the relatively “new” challenges is **climate change**, which is increasing the risks of floods, droughts, and diseases. New technology, such as genetically modified crops and livestock, may favour large-scale family or non-family farming.

Family farms need to **collaborate via various forms of producer organisations, such as cooperatives**, in order to gain scale economies and negotiating power on markets and for policy. However, in many NMSs, strong resistance to the entire notion of cooperatives has been noted, and even in the EU-15 there have been cooperative bankruptcies.

The major **social challenge** for family farmers is inter-generational succession, which can trigger the adoption of new technology, the consolidation/or fragmentation of agricultural land, and the restructuring of farm enterprises. **National legislation on family inheritance** often makes it difficult to arrange fair and smooth succession.

The requirement for both **economic viability and environmentally sustainable management** creates a complex challenge to family farmers. Sometimes small family farmers cannot bear the management costs; even more frequently, they may lack the information, knowledge and skills needed for modern environmental management.

Several challenges to family farming are **territorial in nature**, for example in mountainous regions remote from markets, or in underdeveloped regions with few alternative jobs.

Future prospects for family farming in the EU

As far as the number of farms is concerned, **family farming will continue to dominate EU agriculture**. In respect to land use and output, smaller-scale family farming will continue to be the core of agriculture in some but not all regions/locations and for some but not all farm specialisations.

One of the key economic drivers of future changes within the family farming sector – and in contrast to the non-family farming sector- is the **differential between farm incomes and incomes in the rest of the economy.**

Technological progress and structural change will offset certain disadvantages of some but not all family farms in respect to economic efficiency. More knowledge-intensive and innovative management will allow some family farms to grow, capture economies of scale, and maintain/increase their competitiveness in the European and world market.

Processes leading towards larger FFs and the disappearance of some smaller ones are likely to be uneven across the **territory** of the Union, depending on local economic and biophysical conditions. In more developed rural areas with more job opportunities, family farming can be sustained by **pluriactivity and diversification.**

In several EU MSs, **national land market regulation will continue to protect farming tenants and local owner-occupiers**, and to prohibit or control “land grabbing”, i.e. large-scale acquisitions which restrict the amount of land available for future FF growth.

More research and best practice exchange of national policy experiences in respect to land market and inter-generational succession between the MSs could bring considerable benefits.

At the EU level, the CAP, particularly Pillar 1, cannot be analysed so much in terms of family *versus* non-family farming, but as **large versus small farms**, which are overwhelmingly in family hands. Insofar as the Pillar 1 payments represent a more secure stream of income, they facilitate access to credit since borrowers can offer greater repayment capacity.

With more certain payments and fewer restrictions, the **Small Farmers Scheme** is a significant simplification in the support for the smallest farmers, but it will not improve substantially the current uneven distribution of CAP payments.

To reduce rural-urban income differences and encourage pluriactivity and diversification, **both CAP Pillar 2 and EU regional development policies with Structural and Cohesion Funds have important roles to play** within and outside the farmgate.

As proposed in a recent COMAGRI report on the future of small agricultural holdings (http://www.europarl.europa.eu/meetdocs/2009_2014/documents/agri/pr/941/941772/941772en.pdf), **national as well as EU funds and support** are needed to promote the interests of small and family farms.

2. INTRODUCTION

2.1 Purpose of the Note

The purpose of this Briefing Note prepared for the European Parliament's Committee on Agriculture and Rural Development (COMAGRI) is to inform the Members of the Committee about the challenges and prospects for family farming in Europe in the framework of European legislation. The note has three main objectives as defined in the technical specification:

1. Definition of the concepts of family farming and an overview of the main figures available.
2. Examination of the current and new challenges in economic, demographic, sociological and territorial terms.
3. Analysis of the future prospects for family farming.

It covers the EU-28 (including Croatia where data is available), and, whenever necessary, it analyses separately EU-15 and the New Member States (NMSs).

2014 is the UN International Year of Family Farming (IYFF). The underlying objective of this world-wide initiative is to draw attention to the multiple roles played by family farming, and to help family farmers (FFs) to become a more central focus of policy interests.

In responding to the UN declaration of the IYFF, the European Commission (EC) organised a conference in November 2013 entitled "Family farming: A dialogue towards more sustainable and resilient farming in Europe and the world", preceded by a public consultation about the role of family farming, key challenges and priorities for the future. The conference outcome will contribute to the Food and Agriculture Organisation of the United Nations (FAO) European Regional Conference in Bucharest (Romania) as well as to other events related to family farming that will be organised in many EU Member States (MSs) in the course of the year (EC, 2013a).

Family farming is a key element in fulfilling the objectives of the European Model of Agriculture identified at the Luxembourg European Council in December 1997: "*The Union is determined to continue developing the present European Model of Agriculture while seeking greater internal and external competitiveness. European agriculture must as an economic sector, be versatile, sustainable, competitive and spread throughout European territory, including regions with specific problems*". The Model must embrace a diversity of different production types, as long as they conform to these objectives.

To some farmers in the EU, family farming provides virtually the sole household income stream, which may be substantial from large family-owned holdings selling the bulk of the EU agricultural output and attracting significant support from the Common Agricultural Policy (CAP), or meagre from small land holdings (owned or rented) of a semi-subsistence nature. For others, it is either the main or supplementary source of income, alongside other gainful activities (OGAs), i.e. paid work undertaken by the farmer or other members of the farm household.

Recent IYFF events and conferences have attempted to reach general conclusions on the roles and development paths of the highly **heterogeneous family farm sector**. In

doing so, they have examined some possible challenges concerning family farmers (FFs), particularly in respect to their smallness and vulnerability in an increasingly competitive EU and global market economy. Old theories about the survivability or disappearance of “peasant” agriculture have been revitalised.

2.2 Statistical sources

Statistical analysis is used in this Note to quantify the scale and importance of family farming in the EU. Two sources of statistical information are employed. The first is the three-yearly EU Farm Structure Survey (FSS), which, at first glance, should allow the development of family farming over time to be evaluated. However, the 1999/2000 FSS introduced the concept of “group holdings”, with an impact on the classification of family and non-family labour, important for the definition of what constitutes a family farm. Moreover, FSS methodology changed between 2007 and 2010 (and the 2013 results are not yet available). Until 2007, the Survey covered all agricultural holdings with utilised agricultural area (UAA) of at least one hectare (ha) and those holdings with a UAA of less than one ha if their market production exceeded certain physical thresholds. Under Regulation (EC) No. 1166/2008, the minimum area threshold for agricultural holdings changed from one to five ha for the 2010 survey. Although not all MSs changed their threshold, the changed definition has produced very large changes in surveyed farm holdings in some MSs (e.g. the Czech Republic, Germany, Poland and Slovakia). Thus, although it may appear from the statistics that there has been a significant decrease in family farming between 2007 and 2010, this is a statistical artefact, mostly due to the exclusion of mainly small family farms in 2010.

The second source used is the EU Farm Accountancy Data Network (FADN), which allows classification of farms into groups according to the share of family labour used. The basic FADN sampling unit is the **commercial holding**, i.e. “a farm which is large enough to provide a main activity for the farmer and a level of income sufficient to support his or her family”, so that a great many small and semi-subsistence family farms are excluded (Agriculture and Rural Development, FADN, field of survey). In addition, some holdings leave the annual FADN sample and new ones enter, which makes comparisons over time less reliable.

The statistical analyses presented below are for 2010 for FSS and 2008 for FADN (the last year available to the authors of this paper). The FSS data covers the EU-28, whilst FADN data covers only the EU-25 (data for Croatia, Cyprus and Malta was not available).

3. THE IMPORTANCE OF FAMILY FARMERS IN THE EU

KEY FINDINGS

- Conceptual and statistical definitions of “family farm” and “family farmer” vary, both within the EU, and world-wide. The choice of definition greatly affects the numbers of holdings, land areas and economic significance of the farm sector being considered as a family one.
- Definitions for policy and statistical purposes can be based on farm labour, on ownership and control (and thus succession between generations), on legal status or on business risk. If the definition is based on the share of labour provided by the farm family, **the threshold will determine the number of farms which then become the centre of policy focus**. Any such threshold should therefore be backed by clear evidence and argument to avoid accusations in policy discrimination.
- Europeans generally consider a **family farm as a farm business**. As a result, a family farm is an organisation of agriculture where **the family bears the business risk**.
- EU family farms vary greatly by land area, labour and business size, from large to very small (e.g. semi-subsistence, or “lifestyle”). There are **major differences between the EU-15 and the NMSs** where over three-quarters of Utilised Agricultural Area (UAA) are operated by (mostly large) non-family farms – production cooperatives and corporate farms which are the successors of the previous collective and state farms.
- Sole-holder family farms are mostly under 5 ha of UAA in the EU-15 South and in the NMS-13, but are much more evenly distributed in size (to over 100 ha UAA) in the EU-15 North West. **Family farms in Europe are most definitely not all “peasant” farms**.
- Sole-holder family farms in 2010 accounted for 85 per cent of all EU farms, for 68 per cent of total UAA, and 71 per cent of total Standard Output (SO). However, their importance varies widely across the EU MSs. Non-family farms cultivated the largest proportion of UAA in Slovakia, the Czech Republic, Bulgaria, Hungary and France, and produced four-fifths of SO in the Czech Republic and Slovakia.
- Family farmers are often part-time, and are **frequently pluriactive and/or diversified**. The importance of farming income in total household income varies widely, from being almost the sole source to being only a minor component.
- Family farmers make **multiple contributions** to the EU and rural economy. They are a main contributor to food security, in their role as essential agricultural producers; they enhance the vitality of the rural economy; and they have stronger incentives than some in the non-family farm sector for long-run environmental care.

3.1 Who are the family farmers?

The question of who are family farmers relates to an important policy issue: are the key economic and technical challenges for family farmers so different from the rest of the farming organisations as to justify **specific policy measures**?

Since the inception of the Common Agricultural Policy (CAP), family farmers have been the main target group for policy support (Fennell, 1997). However, despite general

recognition that family farming is the core of EU agriculture, the European Commission has never defined the concept precisely (Hill, 1993).

An intensive debate around the definition of family farmers has developed in relation to the IYFF. FAO has proposed that *a family farm is an agricultural holding which is managed and operated by a household and where farm labour is largely supplied by that household. "The family and the farm are linked, co-evolve and combine economic, environmental, social and cultural functions"* (FAO, 2013).

There are two important points in the above definition. First, it considers the operation of the farm - **the use of family labour**. Second, it confines the family farm to a **household**, which normally lives under the same roof, whilst members of an (extended) family can live in different places, rural and/or urban; and some members may go back to the farm during agricultural campaigns, particularly for crop or horticulture planting or harvesting, when demand for seasonal labour is highest.

From a sociological perspective, family farming is associated with **family values**, such as solidarity, continuity and commitment. Family farming is more than an occupational choice; it reflects a lifestyle based on beliefs and traditions about living and work (Council of the EU, 26 July 2013). This definition emphasises the prevailing family values. However, it should be noted that in practice the operation of a family farm is not always harmonious and internal frictions in the family may exist as, for example, in sibling or inter-generational rivalry.

Europeans generally consider a **family farm as a farm business**. A clear signal in this direction was given in the answers to the public consultation organised by the EC on family farming: *"Family farming is more than business but still a business"* (EC, 2013a). This leads to a very important aspect of the concept of family farming in Europe – a family farm is an organisation of agriculture where **the family bears the business risk**.

Another approach to defining the family farm is to focus on **ownership, control and inheritance of business assets**, thus stressing the continuity of the farm through inter-generational succession. In family farming, farm ownership is combined with managerial control by the so-called *principals* (Gasson and Errington, 1993). These may be the farmer alone, the farmer and spouse, the parents and children, brothers and sisters, i.e. related by kinship or marriage. Another specific feature is often residence: usually, the household lives on the farm or in the neighbouring village, and therefore family farmers help to populate rural areas, even the remotest ones.

To the above, a working document presented at the informal meeting of the Ministers of Agriculture in Vilnius added that the *"major share of capital is built up by the manager and his or her family"* and that *"the major share of the family's income is derived from farming"* (Council of the EU, 26 July 2013). Taken strictly, the first clause could exclude tenant farmers, widespread in some EU MSs. The second clause may exclude many pluriactive farmers and/or farmers running widely diversified farms – both of which are beneficial for rural incomes and rural development – and may thus exclude the most entrepreneurial group of FFs. It may also exclude millions of small and semi-subsistence farmers for whom pluriactivity is a survival strategy: in most MSs, between 30 and 80 per cent of the holders of farms producing less than €8,000 SO per year have an occupation more important than farming in terms of work time (Bailey and Suta, 2014).

The **legal form** of the farm can also be used to define family farming. In the FSS, Eurostat differentiates three types of holdings – sole holder, group holding (partnership)

and legal entity. Normally, **the family farmer is a sole holder**, often (but not always) registered for statistical and policy purposes as a farmer but not constituting a legal business entity. This clearly differentiates family farms from other types of farm organisations, e.g. partnerships, production cooperatives and various types of farm corporations widely spread in the EU NMSs, and farming companies (sometimes run by academic, religious, environmental bodies or charitable trusts) in the EU-15. However, the definition of a family farmer as a sole holder ignores the requirement that farm labour should be largely supplied by the household, and would include e.g. family-owned holdings operated by others under contract.

The choice of, and agreement on, a definition in the EU context has a substantial impact on the assessment of the perceived importance of FFs in the Union, their specific challenges, future prospects and needs for policy support. However, any definition(s) should respect the **diversity of the family farm sector in Europe**. The diversity is depicted in Figure 1, which shows that family farms can be categorised into sixteen groups depending on their objectives, scale, dependence on farming alone, and engagement in other activities. The figure arranges farm structures by size from small to large, and by organisation, from family to non-family; + or 0 indicate whether they have another gainful activity or not.

Figure 1: Structures in European farming

| European farming structures | | Size | Part-time or Full-time | Other gainful activity |
|-----------------------------|-------------------------|-----------|------------------------|------------------------|
| Family farms | Lifestyle | Small | Part-time | + |
| | | | Part-time | + |
| | Semi-subsistence | Small | Full-time | + |
| | | | Full-time | 0 |
| | Commercial | Small | Part-time | + |
| | | | Part-time | 0 |
| | | | Full-time | + |
| | | | Full-time | 0 |
| | | Medium | Part-time | + |
| | | | Part-time | 0 |
| | | | Full-time | + |
| | | | Full-time | 0 |
| | Large | Part-time | + | |
| | | Part-time | 0 | |
| | | Full-time | + | |
| | | Full-time | 0 | |
| Non-family farms | Partnerships | | | |
| | Family-run companies | | | |
| | Non-family companies | | | |
| | Production cooperatives | | | |
| | Trusts and charities | | | |

Source: Authors' representation.

Family farming covers a wide range of farm types and sizes, with both full- and part-time farmers, and farmers with and without other gainful activities. The objectives of some family farms are focused on commercial farm business operations, while others produce

mainly to satisfy household food needs, the so-called semi-subsistence farms (SSFs). In the EU, there are also many "lifestyle" (sometimes called "hobby") holdings, belonging to families with substantial non-agricultural income. Commercial farmers have different sizes expressed in area or in Standard Output¹ (SO); they can be large, medium or small. The majority of SSFs and lifestyle farms are very small in land area and often output. Often, but not always, they are run by pensioners.

Many family farmers and members of their households are working part-time on-farm, or have other gainful activities. In such cases, **family labour may play a minor role, at least in terms of income returns to the household.**

Family farming co-exists with non-family types of organisation of agricultural production. Non-family farming is also heterogeneous. Some partnerships (particularly between relatives) and family-run companies may closely resemble sole-holder family farmers. For example, some family farms, particularly in the EU-15, are registered as family-run business corporations in order to utilise tax advantages and to limit liability to risk; although incorporated (and so separated in official statistics), they do not differ from family farms in terms of labour and management input. Concerning family values and inter-generational succession, family farms using predominantly hired labour have the same concerns as farmers operating mainly with family labour. However, fewer similarities exist between the family farming sector and the various types of non-family held farm companies, trusts and production cooperatives - the latter being widespread in some NMSs.

Concerning **ownership and control of production factors**, even though family farmers in the EU often own their land, equally they can operate on rented land or commonly with a combination of owned and rented land. The share of rented land in total UAA is high in Belgium, France, Germany and those EU NMSs where the land reforms of the 1990s resulted in highly fragmented land ownership. In such countries, the organisation of a viable farm requires the leasing of land from many small landowners (e.g. over 80 per cent of UAA is rented in the Czech Republic and Slovakia).

In general, family farmers use their own physical capital, e.g. buildings and machinery. However, some small farmers, particularly in the poorer NMSs, own no or very little capital: their only significant physical asset is a small area of agricultural land. Such farmers may employ machinery contractors rather than use family-owned machinery, and/or engage neighbours to cultivate their land. Large commercial farmers in the EU also often employ machinery contractors. A problem is that the statistics on the use of contracting in the operation of family farms is insufficient.

3.2 Statistical evidence of the scale of family farming in Europe

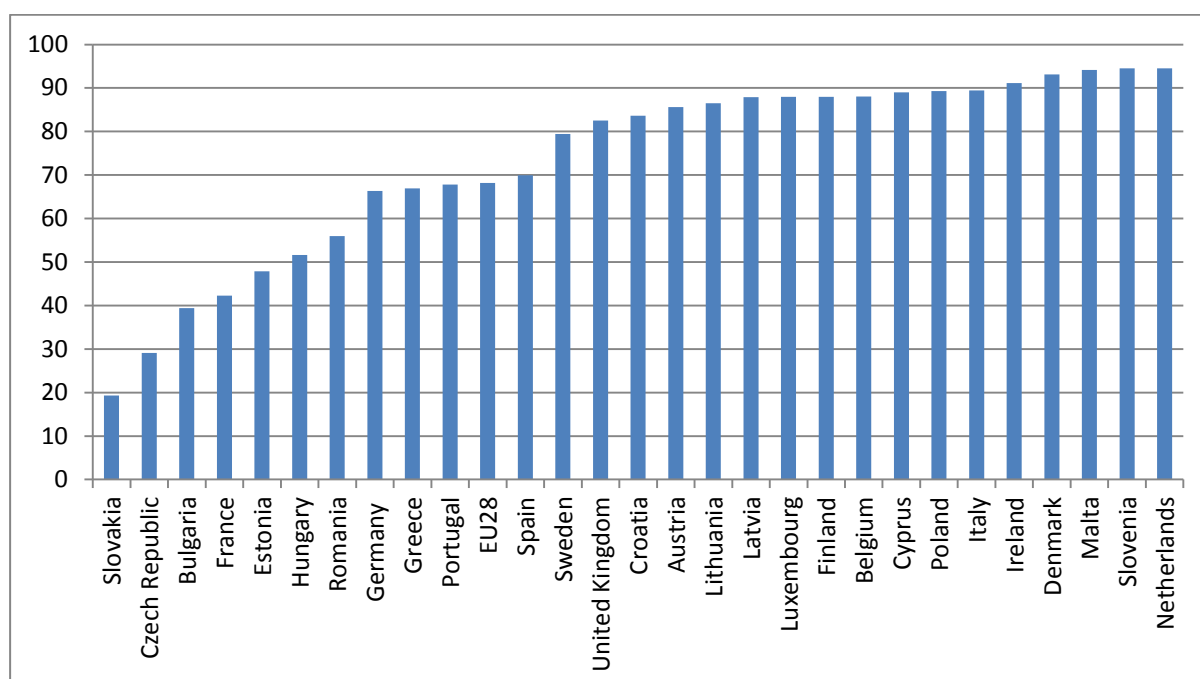
3.2.1 All sole holders

Sole holders are central to the agricultural industry in the EU. In 2010, in the EU-28 there were 12 million farms, 97 per cent of which were sole holders (FSS, 2010), called family farmers here. Such family farms accounted for more than 85 per cent of all farms, except in France (where they accounted for 71 per cent), and managed 120 million ha UAA or 68 per cent of the total UAA in the Union. Non-sole holders cultivate the largest proportion of UAA only in a small number of MSs (Slovakia, the Czech

¹ Standard Output is the average monetary value of the agricultural output at farm-gate prices expressed in EURO.

Republic, Bulgaria, France and Estonia) (Figure 2). In 23 of the EU-28 MSs, sole holders manage over half of UAA, including over 80 per cent of UAA in 16 MSs.

Figure 2: Shares of UAA under sole holder farms in EU MSs, 2010 (%)

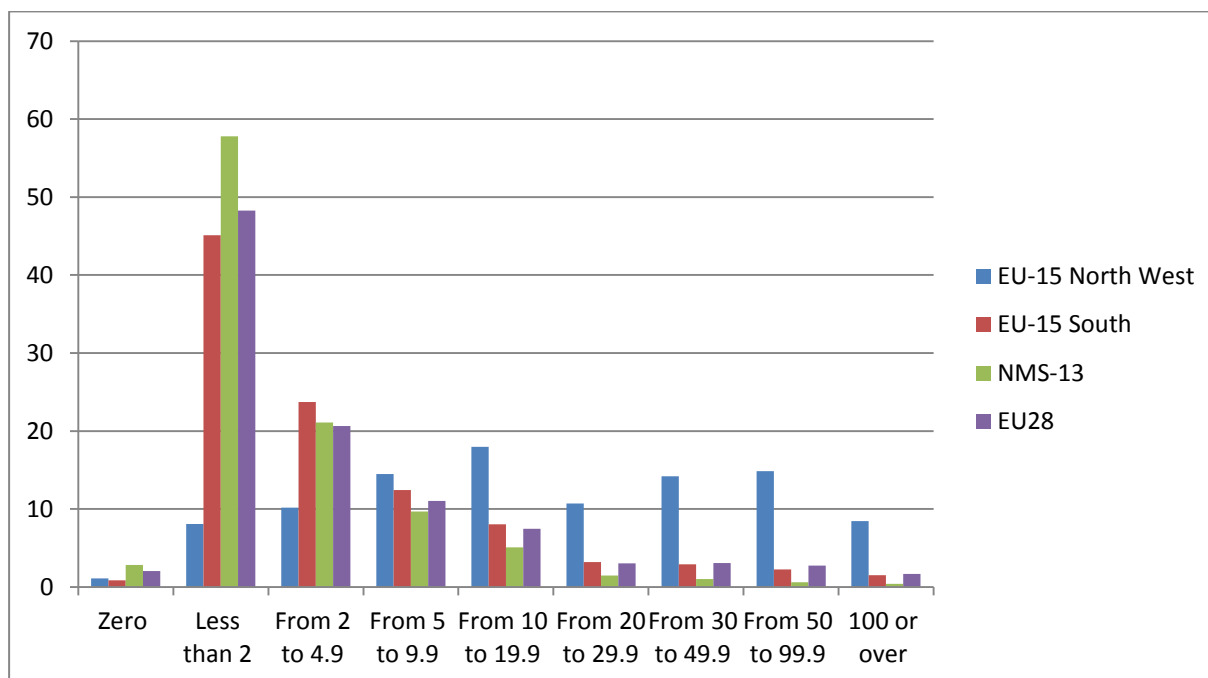


Source: Authors' calculations using Eurostat FSS 2010 database.

Family farmers produce the predominant share (71 per cent) of EU agriculture SO. However, the share of output supplied by the family farm sector varies widely between MSs. Family farmers produce only one-fifth of the SO in the Czech Republic and Slovakia, and around one-third in Estonia and in France.

Family farmers vary widely by size, whether measured in land area or economic size (SO). Figure 3 presents the distribution of family farms (sole holders) by size groups measured in land area in three MS sub-groups in the EU-28 in 2010.

Figure 3: Proportions of family farms according to farm size in ha in the total number of farms in the EU-28 and MS sub-groups, 2010 (%)

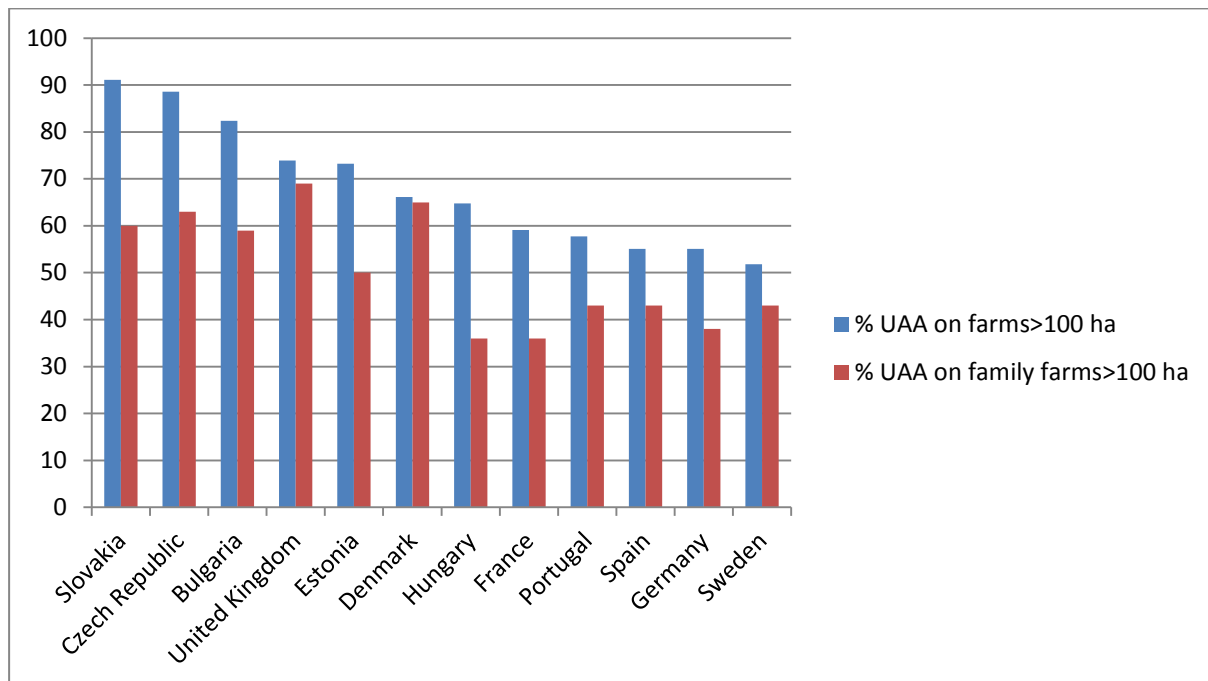


Source: Authors' calculations using Eurostat FSS 2010 database.

Figure 3 shows that family farms are spread along a continuum from tiny holdings of less than 2 ha (in 2010, in the EU-28 there were 5.7 million such farms – mainly semi-subsistence or lifestyle) to large family farms (nearly 199 thousand sole holders had more than 100 ha UAA), with various numbers of farms in size groups between these two extremes. This farm size distribution should remove one of the beliefs surrounding the IYFF – that family farming is always a small-scale agriculture, often meaning “peasant” farming. This certainly does not hold for the EU.

In some MSs, the predominance of large farms (100 ha and over) is further strengthened by the existence of non-family corporate farms and production cooperatives. In 2010, non-family farms accounted for 40 per cent of all farms 100 ha and above in the EU, with the rest operated by families. In several EU MSs, large farms occupied 50 per cent or more of total national UAA, but the family/non-family shares vary widely between MSs. Figure 4 shows 12 MSs where farms of 100 ha or above occupied more than 50 per cent of the UAA in 2010. It also displays the share of UAA on the large family farms. In Denmark and the United Kingdom (UK), almost all the land area on large farms was managed by family farmers. However, in the NMSs, France and to a certain extent Germany (due to large-scale non-family agricultural holdings with many hired workers and thousands of hectares in “*Neue Länder*”), higher proportions of land on the large farms were in the non-family sector.

Figure 4: Proportions of total UAA on farms of 100 ha and over (total and family farms) in selected EU MSs, 2010 (%)



Source: Authors' calculations using Eurostat FSS 2010 database.

Throughout the EU, **family farmers are the main agricultural employers**, and millions of rural inhabitants rely on family farming for their livelihood. In 2010, there were 25.5 million persons engaged as regular labour force in the EU farming; of these, 24 million were engaged by family farmers (Eurostat, FSS 2010 online data code ef_lflegaa). If the number of persons is translated into full-time equivalents (Annual Work Units, AWU), family farmers engage 88 per cent of the total regular EU farm labour force.²

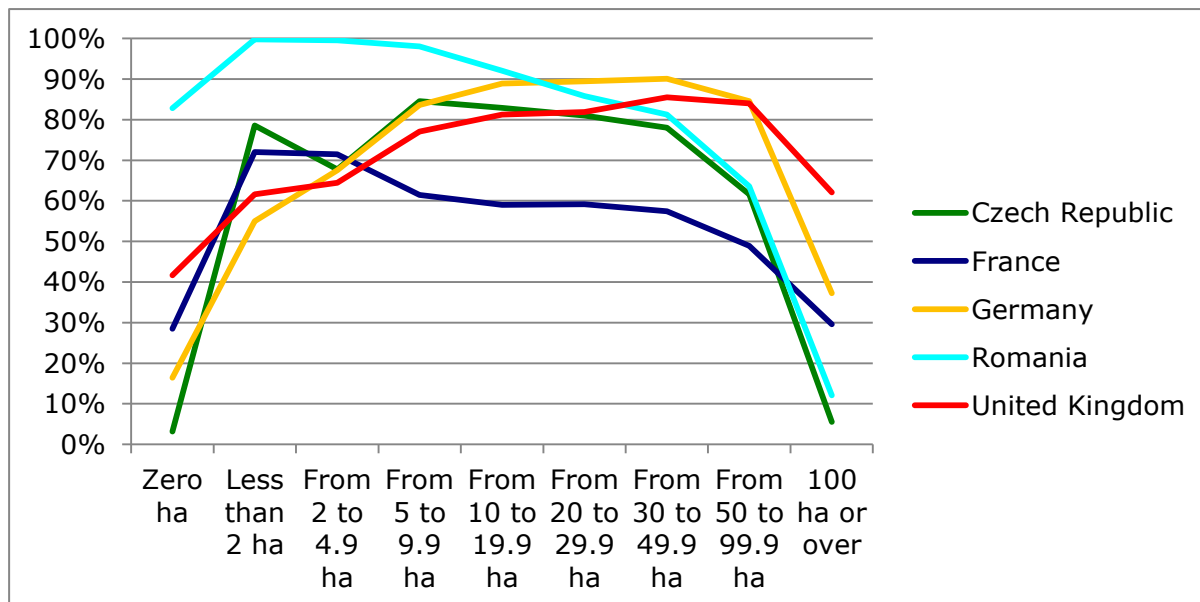
Family labour is usually a very important factor in farm production, but its share in total labour not surprisingly depends on the size of the farming operation, on the crop/livestock choice, and on whether the farm is organic or conventional - the former being more labour-intensive. Darpeix *et al.* (2014) argue that, with the evolution of farms towards larger and more specialised operations, the demand for wage labour increases and wage labour acts as a substitute for family labour. Evidence from French fruit and vegetable farms suggests that increased farmers' human capital (education) also increases the probability of more hired workers. One explanation is that education increases the opportunity of family labour to engage in activities with higher return than farming, making the use of hired labour a more profitable option.

Figure 5 shows for selected EU MSs the shares of family labour in total labour input according to size of the farm measured in land area. The countries represent different mixes of small and large farms, and of family and non-family farming. The figure shows a steep increase in the share of family labour in small-area farms in comparison to zero-ha farms, which are usually intensive livestock operations, e.g. poultry, and then a steep decrease in the share of family labour on the largest farms. In Germany and the UK, this

² One annual work unit (AWU) corresponds to the work performed by one person who is occupied on an agricultural holding on a full-time basis.

occurs in farms managing more than 50 ha UAA, while in the Czech Republic, France and Romania, the decline starts in the 30-50 ha size group.

Figure 5: Proportion of family labour in total regular farm labour in full-time equivalents (AWUs) according to size of the farm in ha in selected EU MSs, 2010 (%)



Source: Authors' calculations using Eurostat FSS 2010 database.

Family farmers are very often part-time farmers. In 2010, half of the sole holders in the EU-28 worked on the farm for less than a quarter of their full working time. However, 84 per cent of these operated a farm with less than 5 ha, a size group where semi-subsistence farmers predominate. Part-time farming is often a survival strategy for the family farmer, increasing household incomes by engaging in activities with higher returns than farming. It can be a stepping-stone out of agriculture for some, or a way for individuals and families with a non-farm background to enter agriculture, perhaps as a lifestyle activity. The popularity of lifestyle farming is strongly influenced by national legislation. For example, in Germany few entrants into agriculture have a non-farm background, due to legal requirements to sell land to farmers only, keeping in this way the family farming tradition (Pfeffer, 1989), while in the UK, with highly liberal land market, such cases are much more frequent. In the EU NMSs, due to the land reforms and farm privatisation in the 1990s, many families have entered farming from non-farm occupations.

Family farmers and their households are widely diversified and/or pluriactive.

Pluriactivity (persons or households with more than one occupation) and farm diversification (any gainful activities that do not comprise farm work but are directly related to the holding) provide family farm households with alternative sources of income, as well as increased social interaction. Over a third (36.4 per cent) of FFs in the EU-27 (without Croatia) are pluriactive (EC, 2008). Diversification and pluriactivity are related differently to farm size. Whilst the share of pluriactive farm managers decreases with increase in farm size (from 41.4 per cent of the managers of farms between 0 and 2 ha, to 15.3 per cent of managers of farms of 100 ha and above), the share of managers of diversified farms increases with farm size, from 10.2 to 22.8 per cent respectively.

Popular directions of diversification in the EU include food processing, farm tourism, renewable energy and farm contract work.

3.2.2 Sole holders operating with predominantly family labour

Several attempts have been made to use quantitative labour thresholds to delineate the family farm sector. Matthews (2013), takes the widest definition of family farmers as those with up to 2 AWUs, since this may represent full-time employment of a farmer with spouse, or with daughter/or son, or with one hired worker. Based on this, Matthews estimates that family farmers account for 75 per cent of the total number of holdings in the EU but operate less than 40 per cent of its UAA. He assumes that the IYFF campaign “*to save family farming*” refers to these farms.

Hill (1993) defines three groups of farms: 1/ family farms where the share of family labour in full-time equivalent (AWUs) is at least 95 per cent of all full-time labour; 2/ intermediate farms with between 50 and 95 per cent of family labour, and 3/ non-family farms where the holder and family members contribute less than 50 per cent of the labour. However, 95 per cent is too restrictive for modern agriculture in Europe, where even farmers managing small farms do not rely only on family labour, either because they are diversified or farm part-time, or because relying on family labour would restrict the size of the operation and its further growth.

Using FADN data, farms have been grouped into four categories depending on the share of family labour - 75-100 per cent; 50-75 per cent; 25-50 per cent; and 0-25 per cent. Table 1 shows the shares of farms, their area, output and labour use, and the average size for these four groups and the whole sample. It is worth reminding that because FADN data refers only to “**commercial**” farms, this sample excludes the smallest and SSFs, the group with the largest share of family labour input.

Table 1: Shares of family labour in total farm labour in full-time equivalents (AWU) on commercial farms covered by FADN in EU-25, 2008 (%)

| Indicator | 75-100% family labour in total labour | 50-75% family labour in total labour | 25-50% family labour in total labour | 0-25% family labour in total labour | All farms in FADN sample |
|---|---------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|--------------------------|
| Percentage of each sub-group in: | | | | | |
| Number of farms | | | | | |
| EU25 | 69.9 | 11.8 | 9.2 | 9.0 | 100.0 |
| EU15 | 70.9 | 12.9 | 10.0 | 6.2 | 100.0 |
| NMS10* | 67.6 | 9.4 | 7.4 | 15.6 | 100.0 |
| Total UAA | | | | | |
| EU25 | 34.6 | 8.8 | 9.5 | 47.1 | 100.0 |
| EU15 | 49.6 | 12.5 | 12.3 | 25.6 | 100.0 |
| NMS10* | 16.5 | 4.3 | 6.2 | 73.0 | 100.0 |
| Output | | | | | |
| EU25 | 29.2 | 9.9 | 13.0 | 47.9 | 100.0 |
| EU15 | 36.3 | 12.6 | 16.7 | 34.5 | 100.0 |
| NMS10* | 13.0 | 3.9 | 4.8 | 78.3 | 100.0 |
| Total labour (AWU) | | | | | |
| EU25 | 31.9 | 8.4 | 9.5 | 50.2 | 100.0 |
| EU15 | 42.0 | 12.3 | 14.0 | 31.8 | 100.0 |
| NMS10* | 21.3 | 4.4 | 4.8 | 69.5 | 100.0 |
| Family labour (FWU) | | | | | |
| EU25 | 74.7 | 12.8 | 8.7 | 3.8 | 100.0 |
| EU15 | 72.7 | 13.8 | 9.4 | 4.1 | 100.0 |
| NMS10* | 79.4 | 10.5 | 7.0 | 3.1 | 100.0 |
| Average size of a farm in each sub-group according to: | | | | | |
| UAA (ha) | | | | | |
| EU25 | 50 | 75 | 104 | 524 | 101 |
| EU15 | 55 | 76 | 96 | 323 | 79 |
| NMS10* | 37 | 71 | 127 | 714 | 153 |
| ESU | | | | | |
| EU25 | 44 | 82 | 131 | 431 | 91 |
| EU15 | 55 | 98 | 157 | 468 | 96 |
| NMS10* | 17 | 30 | 50 | 396 | 80 |
| SO (Euro) | | | | | |
| EU25 | 52,709 | 98,273 | 157,524 | 517,446 | 109,779 |
| EU15 | 65,748 | 117,617 | 188,112 | 562,127 | 115,671 |
| NMS10* | 20,544 | 35,703 | 59,665 | 475,427 | 95,909 |
| Total labour (AWU) | | | | | |
| EU25 | 1.5 | 2.4 | 3.4 | 18.5 | 3.3 |
| EU15 | 1.4 | 2.3 | 3.4 | 12.4 | 2.4 |
| NMS10* | 1.7 | 2.5 | 3.6 | 24.2 | 5.4 |
| Family labour (FWU) | | | | | |
| EU25 | 1.5 | 1.5 | 1.3 | 0.6 | 1.4 |
| EU15 | 1.4 | 1.4 | 1.3 | 0.9 | 1.4 |
| NMS10* | 1.7 | 1.6 | 1.3 | 0.3 | 1.4 |

* Croatia, Cyprus and Malta are not included.

Source: Authors' calculations

The above table provides several important insights concerning commercially sized farms in the EU.

First, even under the very conservative assumption that family farms are only those which are worked with 75 per cent or over of family labour, family farms dominate the structure of EU agriculture in terms of numbers.

Second, in respect to agricultural area, there is a stark contrast between the EU-15 and the NMSs. In the EU-15, family farmers are the most important in utilising the agricultural land, while in the NMSs over three-quarters of the land is operated by non-family organisations. The labour situation is similar.

Third, there is a clear difference in average farm size, either as land area or as economic size, between family and non-family farms, the latter being larger. This is expected, since farming with family labour often constrains the size of the operation.

Fourth, family farmers in the NMSs are far smaller in economic size than their EU-15 counterparts.

Fifth, non-family farms in the NMSs are more than twice as large in land area than those in the EU-15 but slightly smaller in economic size.

These large structural differences between EU-15 and NMSs suggest that **great care should be exercised before adopting a uniform policy approach to family farmers across the whole EU.**

In summary, concerning the definition of family farming in Europe, there are several options that policy-makers may consider if there is evidence that family farmers (all of them, or some sub-groups):

a/ have a particular economic, social and environmental contribution which may be lost if market forces drive towards larger family farms and non-family organisation of agriculture, and

b/ face specific challenges which are not common to the challenges of EU agriculture in general.

The alternative approaches for an operational definition of family farming might incorporate:

- a threshold of 75 per cent of family labour in the total labour input;
- a 50 per cent family labour threshold (to be consistent with the FAO definition that a family farm is operated "mainly" by household labour);
- or a definition encompassing all sole holders.

The decision where to fix a family labour threshold will determine the number of farms which then become the centre of policy focus. The higher the share of family labour input chosen as the threshold, the more the policy focus will be on smaller farms, measured either in land area or as economic size. Bearing in mind that EU agriculture is experiencing continuous structural change in order to stay competitive, whatever definition is accepted, it should be reviewed at regular intervals. Any such threshold chosen should be backed by clear evidence and argument to avoid accusations of policy discrimination.

3.3 Strengths of family farmers

Family farms are a multifaceted phenomenon – a production-oriented organisation, but also a social unit and a unit with environmental land management functions. In economic terms, family farming relies on specific entrepreneurial skills, business ownership and management, choice and risk behaviour, resilience and individual achievement.

One of the strengths of family farmers is their **resilience**. All farms operate under conditions of risk and uncertainty which characterise the agricultural industry. They face biological risks from pests and disease, and absorb extreme climate (drought, floods) and market (price) shocks, but family farmers in particular are noted for “*preserving their structure, functions and identity*” (Darnhofer, 2010).

It is argued that family farms are often more resilient than large corporate farms (Council of the EU, 26 July 2013). The flexibility of family labour to changing technological, economic, social and political circumstances, on and off the farm, contributes to their survival. Cultural attachment to farming and land, particularly on long-owned family holdings, also plays a major role. A prime example of resilience is the survival of small Polish family farms through periods of invasion, central planning and its collapse.

From an economic point of view, the resilience of family farmers is related to the use of family labour. When a farm uses family as opposed to hired labour, the farmer and the family members are directly interested in the final results of the farming operation: they are the so-called “**residual claimants**”, after others such as input suppliers and land-owners (where land is rented) have been paid (Allen and Lueck, 1998). With this incentive, family farm workers usually require less monitoring for effort and initiative. This may reduce costs that otherwise have to be borne by the farmer to monitor hired wage workers who are scattered across farm fields in crop production, and operate in some isolation in livestock production.

Christiaensen and Swinnen (1994) add to this explanation the effects of historical, institutional and political factors. Looking at the history of agriculture in Western Europe, the authors claim that government policies were directed to improve the competitiveness of small family farms since family farmers were “*the main group of the rural constituency*”. In order to maintain the support the rural constituency, governments created an infrastructure (in particular research and extension, and support to small-scale farmers’ cooperatives) which allowed “*the small-scale farmers to capture organisational scale effects, without losing the specific features of small-scale family farm*”. Therefore, **both family farmers’ intrinsic characteristics and policy support explain today’s resilience of family farming in Europe.**

Family farmers use various strategies to increase their resilience and adaptation capacity, in particular:

- diversification to agricultural and/or non-agricultural enterprises and pluriactivity;
- avoiding the commitment of a large share of resources to one activity.

In some countries, family farmers are more active in diversification than corporate farms. For example, 37 per cent of farm households in Romania had another activity beyond the primary production of food and fibre, while this proportion was 30 per cent for legal entities (Alboiu *et al.*, 2011). However, the situation is not identical across all

MSs, and in many cases, e.g. in Lithuania and the UK, corporate farms are more capable of diversifying due to their larger physical and human capital.

Family farmers are cautious managers. In order to spread price risk, farmers try to avoid large and risky investment in one activity. Often they adopt the so-called *bricolage* approach (using what is close to hand), based on detailed knowledge of available resources and tools. Those who have access to external funding still tend to avoid taking out large loans; they try to keep debts at a reasonable level in relation to farm assets³. (Darnhofer, 2010)

3.4 Roles of family farming in Europe

Family farmers operate in different economic, agro-ecological and social contexts, ensuring food security while meeting rising societal expectations for food safety, quality, value, origin and diversity of food, and thus contribute to smart, sustainable and inclusive growth (Council of the EU, 26 July 2013).

Family farming, even on a small scale, including SSFs, can be an important factor in **mitigating rural poverty**, particularly in the poorer regions of the NMSs, by the provision of own produced food. For example, Möllers and Buchenrieder (2011) studied household incomes of small family farmers in Croatia, before that country's accession to the EU, in two regions – one agricultural (Bjelovar-Bilogora) and the other peri-urban (Zagreb). The income from small-scale family farming contributed, on average, above one-third to household income in the peri-urban region and 56 per cent in the agricultural region. For the full-time farmers, this proportion in both regions, on average, reached 68 per cent (the remainder was accounted for either by government transfers, i.e. pensions, or by the income of farm household members having off-farm jobs).

By virtue of the huge scale of the family sector in the EU which provides an uninterrupted supply of high quality and diverse produce, family farmers in the EU contribute to **food security** at regional, national and European level. However, the contribution of non-family farms to food security should not be underestimated. As presented in Table 1, they produce over three-quarters of the output in the NMSs-10.

Family farmers contribute to the environmental sustainability of agricultural systems. Several qualitative factors suggest that family farming structures might be expected to provide a **higher standard of environmental care** than non-family farming. First, the small and SSFs are more inclined to be mixed, i.e. to have both crops and livestock, enabling nutrient recycling within the farm and reducing effluent. They may also utilise more traditional technologies which are better for the environment such as hay-making rather than silage. Second, small farms generally have small fields and this implies more field boundaries preserving more landscape features and biodiversity. Third, family farming, which is maintained generation after generation, is more likely to have longer-run objectives of environmental care. It is deep-rooted in the values of family farmers that each generation has the responsibility to pass on the land in at least as good agricultural and environmental condition as they inherited.

The benefits to the environment are not confined to small family farms. It is true that large commercial operations, including corporate farms, are often specialised in order to exploit economies of scale and comparative advantages. Thus, they frequently bring much less biodiversity and contribute to the disappearance of the traditional cultural

³ There are however some exceptions concerning debt burden. Some tenanted family farms, particularly in Denmark and the UK, are highly indebted.

landscape. Despite this, large commercial family farms may also contribute to environmental sustainability. Larger-scale farms appear more likely than smaller operations to take positive environmental action, and more frequently to adopt explicit conservation practices and join CAP agri-environmental schemes (OECD, 2005). OECD also argues that, regardless of the organisation of farm production, site-specific characteristics (e.g. soil structure, moisture levels) and a farmer's personal inclination often overshadow the effect of other farm characteristics.

However, FFs may also have some weaknesses with respect to environmental sustainability and management. Because FFs are the vast majority of farming population (numerically) and because the sector is so heterogeneous, various environmental "bads", e.g. greenhouse gas (GHG) emissions, soil erosion, non-compliance with nitrates and water framework directives, are also due (at least partially) to family farming. These are non-deliberate negative externalities of farming practices, although farmers, particularly elderly ones, cannot think of agriculture as a polluting activity (Palacios, 1998).

Family farmers **enhance the vitality of the rural economy and preserve traditional cultures**. They occupy a space between tradition and modernity, maintaining their roots in rural values, in a particular locality and in particular rural communities, and at the same time, as businesses, they try to be innovative and to adopt modern agricultural production and marketing techniques. The existence of family farms, particularly small-scale ones, is a significant part of national rural cultural heritage, customs, dress, music, cuisine and habitats. **The very fragmentation of small family farms means that local communities, even the remotest ones, are more highly populated than would otherwise be the case**, and the farm population provides various services to their communities. Many MSs recognise this contribution and make considerable efforts to ensure the continuation of some groups of small family farmers, for example the crofters in Scotland.

Because in most MSs family farmers represent the bulk of the farm producers, and because there is a wide variation in the efficiency of farms, it is not possible to assert that family farming *per se* is a more efficient form of farm organisation. Gorton and Davidova (2004) reviewed 12 studies on NMSs comparing the productivity and efficiency of family farms with the non-family corporate farms and production cooperatives. They concluded that there was no clear-cut evidence that cooperatives or other forms of corporate farming were inherently less efficient for all farm specialisations. However, one of the main weaknesses of the reviewed studies was that they did not take into consideration the variations in human capital, the agri-environmental conditions in which the farms operate and the institutional support. **The efficiency of each family farm depends on the specifics of the knowledge, skills and experience of the family, the quantity and quality of their productive resources, the natural conditions and the support infrastructure** (e.g. advisory services) available to them. All these factors vary widely within and between MSs, and explain much of the variations in farm performance.

Family farmers provide the many benefits discussed above to the European citizens and enhance food security, operating under multiple constraints and challenges discussed in the next chapter. Many of the challenges apply to all farm producers in the EU (family and non-family). However, because family farmers are numerically dominant and because many of them are small, several of the challenges are felt more intensely by FFs and are more difficult to overcome.

4. CURRENT AND NEW CHALLENGES FACING FAMILY FARMERS IN EUROPE

KEY FINDINGS

- The main economic challenges to family farms are **access to farming resources** such as land and capital, and **access to markets**, particularly in terms of bargaining power in the food chain.
- Access to land is restricted by the small proportions of land coming onto the market, by the high price of land, and by the need for suitably located and serviced areas. Large corporate farms often distort the land rental market.
- Access to financial capital, especially via formal channels, may be expensive for small farmers, who are unwilling to risk their land as collateral. Often family farmers work within **credit constraints**, a situation which frequently impedes investments in technological improvement and farm growth.
- **National legislation on family inheritance** often makes it difficult to arrange fair and smooth succession of farms from one generation to the next.
- Family farms need to compete not only in terms of efficiency (scale, productivity) but also in terms of **innovation and entrepreneurship**.
- Given their generally small size relative to other actors in the food chain, **family farms need to collaborate** via various forms of producer organisations, such as cooperatives, in order to gain scale economies and negotiating power on markets and for policy.
- **Social challenges** to family farming include attracting younger generations to farming as an occupation, and adequately recognising the contribution of women.
- Family farms are often regarded as ensuring higher levels of **environmentally friendly land management**; however, to secure special policy assistance, it may be necessary to show this sufficiently.
- Several challenges to family farming are **territorial** in nature, for example in mountainous regions remote from markets, in underdeveloped regions with few alternative jobs, or in peri-urban areas with higher local wages.

4.1 Overview

Family farming faces a number of challenges, both long-term and new. These challenges are unlikely to threaten the continued existence of family farming as a dominant system. However, individual farms – especially small holdings providing a major share of household incomes – may disappear, and give way either to more competitive rural or urban land uses, or to essentially non-commercial uses such as wildlife reserves or human residence.

In the EC public consultation on family farming (EC, 2013b), respondents – mostly EU individuals, and regardless of age or gender – identified the main challenges to family

farms as "Ageing and succession" (a social challenge), "Bargaining power" (an economic challenge) and "Administrative burden" (a policy challenge for farmers). Other challenges included competition with large-scale corporate farms, the cost of inputs, access to finance and to markets, working/living conditions, public policies, and access to land and natural resources. In this chapter, such challenges are grouped into the three conventional **dimensions of sustainability: economic, environmental and social challenges**. However, interactions between these dimensions cannot be ignored, particularly where land and water management is concerned. Moreover, geographical patterns and trends may have particular significance in some regions, and so a group of **"territorial" challenges** to family farming are also considered.

Some relatively new challenges can also be listed. Climate change is increasing the risks of floods, droughts and diseases. New technology, such as genetically modified crops and livestock, may favour large-scale or non-family farming. The very success of the EU in terms of a single market and increased mobility of goods, services and labour affects prices, and may have marked but different regional effects throughout the EU (EC, 2013c; Energy & Environment, 2007). Increased price fluctuations and occasional food scares are testing the resilience of different types of farming.

A distinction must be drawn between challenges facing individual family farms and those facing the farming system as a whole. Structural change – alterations in the number and size of farms, in their production methods, and in their operators – may enable family farming as a system to survive and develop, even though particular farms may be broken up or absorbed into different units.

4.2 Economic challenges

The main economic challenges to family farming surround two key issues of access, at the production and marketing stages respectively:

- **access to farming resources**, such as land, labour, capital and management information;
- **access to markets** for farming outputs and inputs, particularly in terms of weak bargaining power in the food chain.

These access challenges vary in degree between large and small family farms, and particularly between the different regions of the EU, such as the EU-15 North West, the EU-15 South and the New Member States (NMSs). Together with prices, and farming and marketing abilities, they determine the economic competitiveness of family farming.

4.2.1 Land

Very little farmland changes hands in any one year. Ciaian *et al.* (2012a) report that, amongst the EU-15 MSs, the proportion of Utilised Agricultural Area (UAA) sold each year is under 2 per cent except in the UK, the Netherlands and Finland, where trends have fluctuated around 3 per cent per year. In the NMSs, sales of farmland have been strongly affected by the process of land restitution and privatisation, but have also been generally small as a proportion of total UAA.

Moreover, **the high prices paid for farmland** are frequently well above values suggested by agricultural returns, due to a number of causes, including speculative development potential (e.g. for housing), a wealth protection effect against inflation, illiquidity, purchase transaction costs, policy effects (Feichtinger and Salhofer, 2011) and

the generally small area (only a few hectares) of most plots sold. The last is true even in the NMSs, where one might have expected larger areas to be transacted to compensate for lost decades of structural change in family farm sizes and shapes.

Land may of course be transferred between farms by means other than sale, e.g. by renting it. In principle, this is more flexible over time, and avoids the need for finding considerable financial resources. However, rental markets are subject to some of the same constraints as land sales markets. There are wide variations in the share of rented land in total UAA (e.g. from 18 per cent in Ireland to 74 per cent in France, and from 17 per cent in Romania to 89 per cent in Slovakia), as well as in rental levels (which of course also depend on land quality) and in the ratio of land rents to land prices (Ciaian *et al.*, 2012b). **Large non-family farms are able to influence land rental prices** and rental contract conditions, which distorts the markets for land, particularly of good quality, and may undermine the competitiveness of some FFs. Swinnen and Vranken (2008) found that family farms in the Czech Republic were paying €5 or 15 per cent higher rents per ha than corporate farms. The situation in Slovakia was similar: family farmers were paying €7 or 45 per cent more per ha than corporate farms in that country.

Transactions of farmland are not usually controlled directly by national governments, but there are often restrictions on foreign ownership, special tax arrangements (especially in times of inflation), and complex legal and agency frameworks. In addition, national policies often provide legal protection for tenants, and/or restrictions on the level of rent. Both of these may favour existing tenant farmers but tend to narrow the rental market and to raise rents.

In recent decades, **other forms of farmland tenure** have appeared, in addition to simple farmland rental from landowner to tenant, and may involve family farms. These forms vary according to national legislation, e.g. on inheritance and taxation, and may include share farming, contract farming and other forms of joint venture which distribute differently the costs (initial and ongoing), rewards, responsibilities and risks of farming (Ingram and Kirwan, 2011).

4.2.2 Labour

In the past, **large rural families**, and the difficulties of finding alternative employment, usually meant that holdings had too much rather than too little available labour relative to land, even allowing for the lack of machinery. Local cooperation in crops harvesting and livestock herding also increased effective labour resources and allowed a family farm to continue even if the occupier were old.

In modern conditions, with higher-paid jobs normally available in easily reached rural towns and cities, and smaller families, family farming faces the challenge of retaining younger generations in home-based agriculture. A number of factors increase this challenge, including: the increased length and breadth of education, which may introduce students to settlements away from the home farm for secondary and tertiary education, and opens up wider career prospects; and higher expectations amongst women as regards jobs and an independent income. Fewer and larger farms reduce the pool of neighbours able and willing to assist in farm operations. Moreover, the technical (including administrative) requirements of modern farming raise the level of necessary skills and knowledge, e.g. to satisfy environmental and subsidy requirements.

To address this challenge, family farms need to acquire labour-saving equipment (which however requires finance, and new skills) and methods (e.g. fewer enterprises on the farm), and perhaps seasonal labour from new sources (e.g. immigrants).

4.2.3 Capital

Access to machinery and equipment enables the more efficient use of farm labour. However, investment in machinery is a major challenge for many small farmers, or indeed an impossibility given limited financial resources. Like other family businesses, family farms can sometimes rely on family members on or off the farm to supply finance when needed, often with minimal formal arrangements. However, formal borrowing from banks is often more difficult: not only must the farm be used as collateral, and “business plans” submitted, but banks may prefer to deal with larger corporate businesses – a typical large farm bias.

As a result family farmers work within **credit constraints**, a situation which often impedes investments in technological improvement and farm growth. For example, a study of 178 French farms producing cash crops concluded that two-thirds were credit-constrained in the short run and all in the long run (Blancard *et al.*, 2006). A comparison of the financial behaviour of corporate and family farms in Hungary indicated a slightly less cautious behaviour by corporate farms in comparison to family ones as they invested more in less favorable financial situations and with higher CAP subsidies (Bakucs *et al.*, 2009). The authors concluded that corporate farms operated with softer budget constraints.

4.2.4 Competitiveness

In order to provide enough revenue to pay for farm costs and to cover household expenses, taking any other family income into account, most family farms must be able to sell their products in sufficient quantities and at adequate prices. Only lifestyle farms, and SSFs selling only surpluses to market, can largely ignore this criterion of competitiveness.

In the longer term, in addition to productivity and input and product prices, **innovation** in terms of new inputs, techniques and products (goods or services) is important to economic survival, especially when market characteristics such as consumer expectations and international trade (imported substitutes and export opportunities) are fast developing. However, this may be an impossible challenge for small-scale FFs.

Macroeconomic developments mean that not all factors of competition are in the hands of farmers (large or small). Exchange rates determine national (or Eurozone) competitiveness for all sectors, while infrastructure determines transport and other trade costs. Prosperity in manufacturing and services attracts labour and finance away from agriculture, while the reverse is true in times of recession. Family farms are more resilient to sudden shocks of these types, but they cannot resist long-term trends for ever.

Agricultural policy can also affect competitiveness, both directly in terms of farm input and output prices, and more indirectly by supporting education and training, and research and development, relevant to farming challenges. It can also encourage cooperation and other forms of collaboration amongst farmers, often to improve their market bargaining power *vis-à-vis* large buyers of farm output such as wholesalers and supermarkets, or to establish new supply chains. This is likely to be particularly

important for smaller family farmers, since other forms of policy support, and especially per hectare payments, although generally available to all farms, favour larger family and corporate farm businesses.

Economies of scale are generally considered to exist throughout much of farming. Some commentators claim that, in order to preserve the European Model of Agriculture, generational renewal should be aimed at creating new and economically viable farms, e.g. with a business size of at least 40 ESU if they operate full-time (Regidor, 2012). However, at all sizes, considerable inefficiencies between farms are observed. These may arise from a number of sources, such as lack of skill or effort on the part of the farmer, imbalances of production factors (e.g. too much labour relative to land area), or inappropriate choices of products. Low skills and lack of information are particular competitiveness challenges for some FFs, especially the smaller ones. These farms require to adjust flexibly to market conditions, by expansion, specialisation or intensification, depending on the opportunities.

Structural change is often linked to farm mechanisation and increased use of purchased inputs, both features of **technical change in farming**. Agricultural research and development has led to the availability of larger machines and buildings, which are not only more efficient in themselves (e.g. in the use of fuel), but strongly encourage the exploitation of scale economies, i.e. larger enterprises, fields and farms. Most new farm equipment is designed for medium- or large-scale farming rather than small-scale operation as practised by many FFs. Even operations required by policy such as land mapping, livestock tagging, and market labelling involve expenditure of effort and money which is more easily afforded by larger units.

By contrast, much new agricultural technology does not lead to lower cost or higher production in small-scale farming, with some exceptions such as new crop varieties and mobile phones, where scale is largely immaterial. Moreover, to install new technology and to use it efficiently usually requires advice and often occasional servicing by supplier agents or experts such as engineers, agronomists or veterinarians. Farm visits by such personnel are expensive (unless made by state-paid extension services, but they are seldom experts in a particular technology or machine type), while visits by the farmer to service points can be time-consuming, costly and frustrating.

The net result is that larger farms, including non-family ones, may become more efficient over time as they take up technological innovations, while small-scale family farms have more limited opportunities to do so (Davidova *et al.*, 2013).

4.2.5 Weak bargaining power in the food chain

The agricultural industry is atomistic. Even large family farms have weak market power if they act individually, particularly in modern food chains with concentrated retailing and globalised procurement by supermarkets. Sometimes smaller family farms are excluded from the standard contracting and food value chain by the high transaction costs of downstream enterprises in entering into contracts and enforcing them amongst many small family farmers. Although the situation is gradually improving under some policy and social pressure, corporate farms are still a preferred contract partner since they can supply larger quantities and can usually maintain a more stable quality (Davidova and Thomson, 2013).

In order to achieve economies of scale resulting in greater efficiency and more effective negotiation, it is essential for family farmers to act as much as possible together. The

European Commission recently sponsored a study (Bijman *et al.*, 2012) of marketing cooperatives. It found that, across the EU-27 as a whole, agricultural cooperatives accounted for a substantial market share, especially for dairy (over 50 per cent) and for olives, wine, fruit and vegetables (around 40 per cent). A major exception was sheep (and goat) meat, where the share was under 5 per cent. High levels (over 50 per cent) of marketing cooperation were shown for Austria, Denmark, Finland, France, Ireland, Malta, the Netherlands and Sweden, but low ones (under 25 per cent) for the United Kingdom and the NMSs (where data is available). It may be generalised that agricultural exporting countries and regions tend to have higher levels of marketing cooperatives and cooperative type organisations than importing ones.

In several EU-27 countries, **forming and maintaining cooperatives has proved difficult**. In some NMSs, according to Lerman (2012), *"there is a strong resistance to the entire notion of cooperatives among the rural people in the region, motivated by the long negative experience with Soviet-era collectivization"*. In Greece, according to Kasimis and Papadopoulos (2013), *"clientelism and corporatism have led to the collapse and bankruptcy of farmers' cooperatives and organizations"*. In the UK, competition from the corporate sector has led to the collapse or absorption of several cooperatives, especially the smaller ones.

Therefore, although very useful for increasing the bargaining power of FFs, farmers' cooperation creates a particular challenge for the family farming sector in some MSs, and in particular in the NMSs where the small-scale family farming is predominant.

4.3 Social challenges

4.3.1 Succession

A major social challenge for family farmers is inter-generational succession. Succession of management is the ultimate test for the family farm, since it can trigger the adoption of new technology, the consolidation/or fragmentation of agricultural land, and the restructuring of farm enterprises. The retirement and succession decisions of family farmers depend on:

- a. personal preferences for retirement, e.g. according to age;
- b. the availability of a suitable and willing successor;
- c. optimal timing from the point of view of the successor (Kimhi and Lopez, 1999).

If the farmer decides to retire too early, the farm may be left to an inexperienced successor who cannot combat competitive pressures from more efficient family farmers or corporate farms. If it comes too late, the farmer may be left without a successor since all the children may have left the farm, and often the rural area, for non-agricultural employment which they are unwilling to give up.

However, in several EU MSs, in particular in some of the poorer NMSs, poverty and household food security considerations may divert the farmer's attention away from the optimal time for retirement. Salasan and Fritzsich (2009) describe how in Romania *"... elderly people, after retiring or losing employment, start agricultural work. Since it can be assumed that they do not embark upon such difficult work without necessity, it can be concluded that there are social reasons for this phenomenon. Most pensioners have small pensions or even no pensions at all, but they do have a small agricultural property which could provide significantly for their subsistence needs. The property over that land seems*

to work as insurance for them. The employment structure supports this conclusion. While for non-agricultural occupations the share of employed persons decreases sharply for people older than 54, it remains high for agricultural activities.”

However, a key challenge to family farm succession is often national legislation over inheritance, which can have a key impact on the consolidation, or conversely on the fragmentation, of land and farm assets. For example, the *Code Napoleon* inheritance system, which requires assets to be passed to all children in equal shares, has led to a prevalence of small farms, and fragmented holdings (scattered fields) in many EU MSs. Several countries, including Germany, Denmark and Italy, have introduced financial measures such as reduced or delayed taxation in order to ease the challenge of handing on a viable farm business to one descendent while maintaining fairness amongst other family members.

4.3.2 Gender challenges

Women play a vital role on many farms but are often not in a dominant role, legally or otherwise, in decision-making. Women contribute substantially to family farming labour, but less to farm management (Davidova and Thomson, 2013). In the EU-28 the female share is 57 per cent of all family members' labour, but only 30 per cent are female sole holders who work on the farms. There are striking differences in some MSs amongst both NMSs and the EU-15. For example, in Bulgaria 23 per cent of sole holders are women, but females account for 70 per cent of the family members working on the farm. In Croatia, these proportions are 22 and 65 per cent respectively, in Slovakia 18 and 59 per cent, in Denmark 9 and 72 per cent and in the Netherlands 6 and 63 per cent.

Moreover, men and women may, in general, take different attitudes to the production and social context of a family farm. Where the farm is isolated, a woman may miss frequent social contact with neighbours, especially if rural services are few, there is a lack of local help with child care, and accompanying children to and from school takes up time in travel. Even in farming villages, they may feel isolated from wider society.

To counteract isolation, and – sometimes more importantly – to supplement farming income, women members of farm families may take up non-farming jobs, often in local retail, tourist or public services. Nevertheless, they usually remain responsible for important farm duties, such as small-scale livestock husbandry or record-keeping. Thus they, and the farm household, become pluriactive.

From the point of view of gender equality, the status of female descendants is particularly important. In many MSs, sons or other male descendants have traditionally received priority in inheritance, whether equally as in the *Code Napoleon* or under the 'English' system whereby the oldest son is entitled to the land in undivided form. In either case, daughters, and women generally, were, and in some countries still are, disadvantaged as inheriting a farm.

4.4 Environmental Challenges

A different group of challenges facing family farmers are those connected with various aspects of the environment, whether its appearance (landscape), biology (wildlife), resources (soil, water, air) or culture (traditional buildings). Over several decades, and with rising incomes (until the post-2007 recession), social awareness and valuation of these semi-natural and man-made assets has risen in Europe, as recognised in the 1987 Single European Act and in the 2001 Sustainable Development Strategy agreed in

Gothenberg. More recently, climate change has added a new environmental dimension to individual and governmental concerns and commitments, such as the Kyoto Declaration. Business sectors, including agriculture, are having to recognise these challenges alongside traditional market pressures.

The CAP has gradually incorporated environmental measures within and alongside its various components, primarily via cross-compliance and now “greening” in Pillar I, and via Pillar 2’s Axis 2 (Land Management) until 2013. CAP after 2014 has two priority agri-environmental objectives: 1/ to restore, preserve and enhance ecosystems related to agriculture and forestry; and 2/ to promote resource efficiency and support the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors.

The requirement for both economic viability and environmentally sustainable management creates a complex challenge to family farmers. Sometimes small family farmers cannot bear the management costs, or, even more frequently, they may lack the information, knowledge and skills needed to deal with the complex environmental issues raised by outsiders or policy-makers. Moreover, small family farmers may not be able to make the necessary investments.

To ensure the preservation, and indeed conservation and enhancement, of environmental “public goods” on family farms, a number of conditions seem necessary, including:

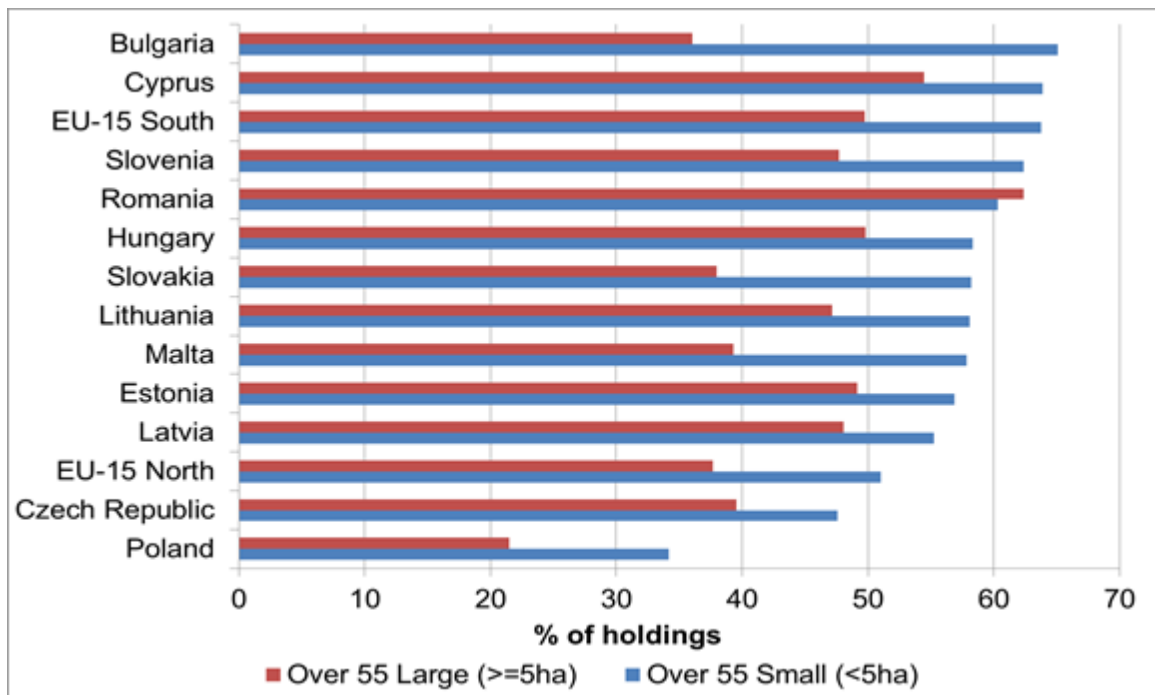
- identification and recognition of these goods by both farmers and agencies that must design and approve agri-environmental schemes at farm level (as well as the general public);
- supportive education and training;
- payments for environmental management that would otherwise disappear.

4.5 Demographic challenges

In the EU, both in the EU-15 and the NMSs, the farming population is ageing. In the EU27 in 2007, 55 per cent of farm holders were older than 55 years of age. For each farm holder younger than 35, there were 9 farmers older than 55 (EU, June 2012). Poland had the largest proportion of farm holders younger than 35 (12.3 per cent), a percentage twice as high as the average in the EU (6 per cent). Portugal had the oldest farming population – 73.4 per cent of farm holders above 55, followed by Bulgaria (70.3 per cent) and Romania (67.5 per cent). Matthews (2012) points out that the number of farm holders in the 45-54 age group in 2007 was greater than in the 35-44 age group in the previous decade, suggesting that there were more net farming entrants than net exits in the older age groups.

Younger farmers are usually found in larger farms which are economically viable and can provide an acceptable living standard for the farm family. It is just the opposite on the small farms. Figure 6 presents the proportion of family farms run by a farmer older than 55 years of age. The farms are divided according to land area above and below 5 ha.

Figure 6: Proportion of family holdings larger and smaller than 5 ha run by a farmer older than 55 in selected EU MSs, 2010 (%)



Source: Bailey and Suta (2014).

Almost everywhere, more than half of family farms smaller than 5 ha are run by farmers older than 55. In Cyprus, and particularly in Romania with more family farms than any other EU MS, more than 60 per cent of both smaller and larger farms are run by old farmers. The small proportion of old farmers in Poland may be due to their national farmers' pension scheme, in combination with the implementation of the EU early retirement measure (Bailey and Suta, 2014).

According to Matthews (2013), access to land is at the root of this challenge to a predominantly family farming structure: *"Where land is mainly passed on within the family, younger farmers must wait until the older generation are willing to relinquish management control and pass on the farm before they can become farmers in their own right. With older farmers living longer, and with significant inducements for them to remain in farming and few incentives to leave, Europe's farm workforce is gradually ageing, creating substantial barriers for new entrants"*.

This suggests that the demographic challenge is greater for family than non-family farmers. On non-family farms, there is not the problem typical for some family farmers that the successor has to wait until his/her 50s to inherit the farm. And delayed succession is often related to loss of innovative entrepreneurial spirit, which decreases with age.

Another demographic challenge is the **bachelor farmer**, found particularly in small-scale and livestock farming. These farmers face social isolation, lack of successor, and poor incentives to innovate.

The problem of aging farmer populations may hinder the future sustainability and competitiveness of family farming in the EU, since older farmers are usually less educated, less innovative and more risk-averse. The unfavorable demographics in the EU

countries make the issue of succession central to the future sustainability of family farming.

4.6 Territorial Challenges

Challenges to family farming vary geographically in their intensities and balance, thus posing a threat to the regional or cohesion policy objectives of the EU, as well as to individual farms. While no single typology can cover the whole of the EU and all family farms, it is useful to distinguish certain types of territories and to consider some of the challenges identified above for each.

4.6.1 Mountain and hill areas

Since the 1970s, under Articles 18-20 of Regulation (EEC) No 1257/1999, the CAP has distinguished “less favoured areas” (LFAs), most of which – almost half the total EU UAA – are composed of mountains or hills where farming is handicapped by adverse natural conditions. Member States with particularly high proportions (over 70 per cent) of UAA in LFAs include Greece, Spain, Latvia, Luxembourg, Portugal, Slovenia and Finland (EC, 2009). Proportions of total holding numbers, agricultural labour (AWUs) and (more so) business potential (ESUs) are somewhat lower than these percentages, but still represent important components of national and EU agriculture. Although statistics are not readily available (and average AWU per farm is very similar in non-LFA, non-mountainous LFA and mountainous LFA), it is likely that family farms dominate these LFAs even more than at lower altitudes, where corporate and other non-family farms are more commonly expected.

According to EC (2009), “*the structural adjustment of agriculture in non-mountain LFAs between 1995 and 2005 [in the EU-15 excluding Germany] does not differ systematically from non-LFAs*”, i.e. the number of agricultural holdings decreased at a somewhat faster rate than non-handicapped areas, although UAA did not decrease. However, “*Europe-wide data mask some more significant trends at a micro-scale*”, and LFA farms still lag behind others.

In these areas, **agricultural land use is likely to be given up without policy assistance**. In order to counter this, the CAP includes various types of LFA payment schemes. Currently, after criticism for its inefficiency – largely in terms of flat rate payments for vaguely identified public good targets (Court of Auditors, 2003) – the LFA regime is scheduled to be replaced, by 2018 at the latest, by one based on a new designation called Areas facing Natural Constraints (ANCs). Specific details, such as area maps and eligibility criteria, are yet to be determined by MSs (and approved by the EC), and it is unclear if the ANC regime will prove more or less favourable to family farmers than others, e.g. “ranches” or “reserves” run by non-governmental organisations.

To meet the challenges of less favoured status, many farms have sought opportunities in tourism, both on the farm (visitor accommodation, produce sales) and nearby (lakes, mountain trails), making good use of sometimes dramatic landscapes and unusual wildlife. The CAP’s Pillar 2 offers a number of measures in this respect, to support both environmentally friendly land management, and investment in facilities and training.

4.6.2 Remote underdeveloped areas

Some regions in the EU, though not particularly disadvantaged in biophysical terms and hence not classified as LFAs, are relatively remote from major or even medium-sized

cities, and lack non-farm jobs. Such regions are observable in parts of Romania, Bulgaria, eastern Hungary and Poland. Their location adds to farm costs (e.g. for feed, fertiliser, fuel, as well as for travel time by advisory service personnel visiting the farm) and reduces net sales revenue if the farmer or agent must deliver to a distant point. Not only do the farms suffer these economic disadvantages, but the household is far from urban attractions and facilities such as higher education institutions, government offices, and cultural institutions. Both younger and older farm household members may feel the isolation as lowering their quality of life.

As reported by Salvioni *et al.* (2014), much farming in Greece, Italy and Portugal is characterised by steep and dry land, often located in the remoter and mountainous areas, where it is difficult to achieve economies of scale. As a consequence, farming is often a low-profit economic activity, and does not attract young and business-oriented people. Even if sizeable infrastructure investments, i.e. in irrigation schemes in arid areas, or improvements in communication networks, take place, a rather sensitive Mediterranean terrain hardly lends itself to intensive farming practices. In these areas, economic activities alternative to farming are often scarce, except in places with touristic attractions. In addition, the so-called Mediterranean model of social welfare, strongly based on pensions rather than social assistance, makes family self-reliance very important in matters of social care and material support. Under these circumstances, small scale or semi-subsistence family farming is often the only, or at least an important, source of household income. In particular, farming is often used to top up the low incomes of retired workers. This partly explains why less than a quarter of holdings in the Southern EU-15 countries provide full-time employment to their holders, many of whom are elderly.

4.6.3 Peri-urban areas

In areas around the major cities of the EU, agriculture faces both challenges and opportunities arising from the proximity of large numbers of people (some with high incomes and/or fast developing consumption tastes), and the services and facilities that they require. These challenges may be more striking in the NMSs, where many capital cities have undergone considerable modernisation and expansion relative to rural areas and smaller settlements.

Physical challenges to farming near cities are presented by communication corridors and new housing areas which may divide holdings and make certain types of farm enterprise (e.g. livestock) more difficult due to noise and pollution. Economic challenges include the high price of land suitable for urban development, and city jobs and wage levels which are often more attractive than those of farm labour.

On the other hand, some of these features can work in a family farm's favour, e.g. by providing additional income from managing rented farmland on a temporary basis, or from occupations available to farm household members without major commuting costs. The sale – compulsory or voluntary – of pieces of land for house-building, road-widening, storage or other urban purposes can provide financial capital available to invest in on-farm equipment, to set up diversification activities, or to ease succession difficulties.

It has been observed that small farms near cities often simplify their enterprises so as to allow the farmer and family members to undertake non-farming occupations. In relation to farming much better marketing opportunities exist in peri-urban areas, particularly for direct sales. Gorton *et al.* (2014) report that farmers' markets in Hungarian and Romanian rural areas have not been very successful since most of the local inhabitants

produce the same local products. The most successful farmers' markets, in terms of raising sale prices, have been in and around capital cities, amongst middle-class "concerned consumers".

Overall, by taking up these opportunities, **family farms in peri-urban situations are more likely to be able to continue in existence than those further afield**, although with a decreasing reliance on farm incomes.

5. FUTURE PROSPECTS FOR FAMILY FARMING IN EUROPE

KEY FINDINGS

- **Family farming will survive and will continue to dominate EU agriculture** as far as the number of farms is concerned. In respect to land use and output, smaller-scale family farming will continue to be the core of agriculture in some but not all regions/locations and for some but not all farm specialisations.
- One of the key economic drivers of future changes within the family farming sector - and in contrast to the non-family farming sector - is the **differential between farm incomes and incomes in the rest of the economy**.
- Technological progress and the resulting structural change **will offset certain disadvantages of some but not all family farms**, in respect to economic efficiency.
- Processes leading towards larger FFs and the disappearance of some smaller ones are likely to be uneven across the **territory** of the Union, depending on local economic and biophysical conditions. In more developed rural areas with more job opportunities, family farming can be sustained by **pluriactivity and diversification**.
- The national policy experiences in respect to land market and inter-generational succession exhibit different results for the competitiveness and sustainability of family farming. More **research and best practice exchange between the MSs** could bring considerable benefits.
- The CAP, particularly Pillar 1, cannot be analysed so much in terms of family *versus* non-family farming, but as **large versus small farms** since Pillar1 payments are proportional to area. This seems likely to continue with the reformed CAP, despite the fact that the latest CAP reform explicitly recognises the challenges of small family farms with the Small Farmers Scheme.
- Since the survival of family farming depends greatly on reducing rural-urban income differences through pluriactivity and diversification, **both CAP Pillar 2** and EU regional development policies with **Structural and Cohesion Funds** have important roles to play within and outside the farmgate.

5.1 Expected future adjustments of family farming in the EU

Family farming has survived in Europe over centuries, re-emerging from crises, wars and natural disasters, adjusting to changing economic fortunes and in some countries to dramatic changes in political context. This has never been a smooth and painless process, and millions of small farmers have disappeared to give way to larger, more efficient and more competitive farms, able to adopt new inputs and technologies. It is beyond doubt that **family farming will survive and will continue to be dominant in EU agriculture** as far as the number of farms is concerned. In respect to land use and output, traditional smaller-scale family farming will still continue to be the core of agriculture in some but not all regions/locations and for some but not all farm specialisations.

5.1.1 Factors leading towards larger family and non-family farms

The factors that induce adjustments within the family farming and between the family farm sector and non-family types of organisations can be classified as economic, technological, social and policy. Their impact may differ for the different family farm sub-groups (the latter shown in Table 1 Chapter 2), and for farms operating in rural areas with different levels of development and different biophysical characteristics.

Amongst the most powerful **economic** factors shaping the future of family farming are **relative input-output prices and the consequent level of farm incomes**. The key factor of the future changes will be the differentials between farm incomes and incomes in the rest of the economy. Assuming resumed macroeconomic growth, unless farm businesses in the rural economy can achieve the rates of economic growth in the non-farm sector, these income disparities will grow. If these disparities increase, then the pace of disengagement from family farming, particularly from full-time commercial family farms which cannot provide enough income to sustain the family, will accelerate. This is especially so for farms which have access only to a very small land area. This suggests the **centrality of relative incomes** as a factor determining the future prospects of family farming, particularly for smaller farms struggling to keep pace with technical progress and invest in new technologies.

A second driver of change in the development of family *versus* non-family farming is **technological progress and resulting structural change**. Technological progress will offset certain disadvantages of some, but not all family farmers, in respect to economic efficiency, as new knowledge and innovations will allow some farms to grow, capture economies of scale in production, and maintain/increase their competitiveness in European and world markets. Such growth in farm size (in area or economic size) will inevitably decrease the number of family farms in the EU.

The process towards larger FFs and the disappearance of some smaller farms is likely to be **uneven across the territory** of the Union, since it will depend on local economic and biophysical conditions. It may be more pronounced in lowland areas that are productive and can maintain economically viable farms.

It has been pointed out that the EU farm structure is highly fragmented. As exemplified in the study for the European Parliament on "Semi-subsistence farming: Values and directions of development", many of the small farms are semi-subsistence in nature (Davidova *et al.*, 2013). Economic growth in general and especially in rural areas is likely to decrease the role of semi-subsistence farming as a buffer against relative poverty and an important provider of food to vulnerable households, particularly in some NMSs and EU-15 South countries. Some of these farms are expected to increase their degree of commercialisation and to survive as small (or medium-sized) commercial operations, most likely run by part-time farmers, while others may become lifestyle farms, valued by households with other sources of income and usually maintaining the preferences for own produced food. This restructuring will be a slow process, since there are deeply rooted traditions of semi-subsistence farming in some MSs. If **structural change driven by economic and technological factors is environmentally destructive**, e.g. for biodiversity or water protection, or creates a danger of rural depopulation and perhaps the demise of some rural communities, then **policy measures (not only within the CAP, but also at national level) may be necessary to maintain small-scale family farming in these endangered locations**. This is the case in mountainous areas, high nature value areas, or areas with traditional cultural landscape.

Technological change may also push towards more non-family types of organisations – either sole holders using predominantly hired labour, partnerships, or various types of family and non-family farm companies. Adoption of new technology usually requires capital investment. Allen and Lueck (1998) point out that, on the one hand, it is easier to make substantial investments when the resources of several owners are pooled together, and, on the other, that capital may be used more efficiently/intensively in larger farms. For this reason, family farmers have high capital costs, and may generally stay smaller and have less, and less modern, equipment, compared to more non-family type farms, e.g. partnerships or corporations.

The consequences of these prospective developments (which are in fact a continuation of past and current trends) are likely to be judged differently, depending on whether economic or social aspects are concerned. From an economic point of view, these developments are welcome since they have the potential to increase the incomes of family farmers. Overall, they will consolidate and increase the competitiveness of European farming, which is still over-fragmented compared to Europe's major competitors in the Americas. From the social perspective, however, they may weaken the link between farming and the family, undermining the "symbolic capital" of the family farm. This can be interpreted as friction between the goal of economic sustainability and the values of family farming.

Macroeconomic environment. It is well-known that family farming acts as a buffer during economic recessions and urban unemployment, and thus plays a **counter-cyclical role** to a certain extent. This phenomenon was evident in the NMSs as they went through economic transition post-1989 political reform. More recent examples are provided by Greece, Italy and Portugal, where urban unemployment and cuts in civil servant salaries have brought about migration to rural areas and family agriculture (Salvioni *et al.*, 2014). In many cases, the unemployed urban dwellers who returned to the land have been younger, better-educated and more entrepreneurially experienced than the average farmer. Of course, inversely, when the macroeconomic climate is favourable, disengagement from family farming and exits from small and semi-subsistence farms may gather pace.

From the social point of view, one of the most important factors that will affect the future prospects of family farmers is **the existence of a willing successor** to take over the farm. The lack of a successor means that the farm could be abandoned in some situations, or more likely could be sold to enlarging family farmers or to a non-family corporation. In particular situations when there is no successor after several generations of family farming, a trust may look after the long-run viability of the land and its farming heritage.

Smooth **succession** depends on the willingness of younger generations to be engaged in farming. The latter will depend again on the level of territorial development. In order to stay in rural areas, young people require a developed rural economy with services and leisure opportunities; otherwise, they will often prefer to migrate to towns and into non-agricultural occupations. It may be easier for family farms than for non-family farms to retain **young successors** due to the promise of asset transfer. This is especially so if land values continue to increase.

The future prospects of family farming are also related to **farm specialisation** (farm type). Noting the transaction costs involved in monitoring labour, Allen and Lueck (1998) predict that **the value of the family farming declines as specialisation becomes more important**. Corporate farms mainly emerge in production systems where many

workers are necessary and where there are gains from task specialisation. For example, in cereal production and other annual crops, seasonality limits the gains from specialisation, and in addition it is expensive to monitor hired labour scattered across the fields. However, if a farm diversifies into processing stages requiring different equipment and skills, the typical family farm will be at a disadvantage. Family farming may thus become even less frequent in intensive livestock production where the effect of climate and seasonality is small, e.g. poultry, feed-lot cattle and hogs (pigs), a proposition supported by evidence in USA and North West Europe.

In summary, economic and technological factors, and the lack of willing successors, will mean continued structural change towards larger family farms and some non-family organisation of agriculture. Figure 7 suggests some possible prospects based on the above mentioned factors. The expectations are a/ for farm consolidation and a decrease in the role of small SSFs and smaller commercial farms, and b/ with the exception of large commercial family farms, a continuation of the trend to part-time farming in combination with other gainful activity. This is exemplified in Figure 7 by the anticipated fall in the numbers of part-time medium-sized farms without other gainful activity, and in those of full-time medium-sized farms. Production cooperatives, currently widespread in some NMSs, are also expected to fall (both in numbers and size) since demand for land for family farming is increasing. After the expiry of current land-lease contracts with cooperatives, some landowners are expected to take their lands out of the cooperatives, and rent it out to expanding family farms in the vicinity.

Figure 7: Potential future changes in EU farm structures¹

| European farming structures | | Size | Part-time or full-time | Other gainful activity | Future prospects | |
|-----------------------------|-------------------------|--------------------------------|------------------------|------------------------|------------------|------|
| Family farms | Lifestyle | Small | Part-time | + | rise | |
| | Semi-subsistence | Small | Part-time | + | fall | |
| | | | Full-time | 0 | | |
| | Commercial | Small | Part-time | + | fall | |
| | | | Full-time | 0 | | |
| | | Medium | Part-time | + | rise | |
| | | | Full-time | 0 | fall | |
| | | Large | Part-time | + | rise | |
| | | | Full-time | 0 | fall | |
| | Non-family farms | Partnerships | | | | rise |
| | | Family-run companies | | | | rise |
| | | Non-family companies | | | | rise |
| | | Production cooperatives | | | | fall |
| | | Trusts and charities | | | | rise |

¹ The groups of farms are arranged by size from small to large, and by organisation – from family to non-family; + and 0 indicate whether they have another gainful activity or not.

Source: Authors' representation.

However, the process of farm restructuring is a complex one and there are factors that may slow down the adjustments discussed above.

5.1.2 Potential factors to counter the move from family to non-family types of farming organisation

The tendencies discussed in the previous section are typical not only for Europe but also for other parts of the world. What is **unique for Europe are likely developments in the opposite direction**. Land reforms and farm restructuring in the current NMSs in Central and Eastern Europe have brought about a bimodal farm distribution – small numbers of large corporate farms (or production cooperatives) and a large number of small family farms. With generational change and the removal of all temporary restrictions on agricultural land ownership by foreign EU citizens, it may be expected that some land owners will take their land out of the corporate farms/cooperatives, and sell it, rent it to others, or start cultivating it as family farmers. The rate and the scale of this move to family farming from production cooperative and corporate structures in the EU NMSs will depend on the relationship of farm to non-farm incomes, the value of land assets (partly affected by future CAP policy support), and the capacity of land owners to finance non-land capital costs. In addition to these economic factors, the process will be influenced by the preferences of land owners for independent work and the value they put on family farming.

Pluriactivity and farm diversification can potentially strengthen family farming and increase its resilience. This potential can be realised under developed rural economies, job availability and effective demand for the products and services supplied by diversified farmers. In more developed rural areas with more job opportunities, family farming may be sustained (to a certain extent) by pluriactivity and diversification. It is likely that, with increased farm diversification, different branches of the family will contribute to different parts of the business, both agricultural and non-agricultural (e.g. processing, trade). Therefore, there will be more task/activity specialisation depending on family members' interests, skills and talents. This may result in more partnerships between different branches of the family and in more diversified family-run companies, but basically it will help sustain the family values in rural Europe. The roots of such development can now be observed in large family farms in some EU-15 MSs.

Many family farmers have a strong **emotional attachment to land**. This is particularly in farms where the land has been passed down for several generations. Salvioni *et al.* (2014) present the case of Southern EU MSs and argue that farmers attach high social values to land, especially when they inherit it and have ties with local identity and culture. Land is also used as insurance against economic risk. For example, in Italy, *"households owning farmland did not sell it, not because of its income-generating potential, but because land is a store of value and a place to "park" unneeded money as a safe hedge against inflation in turbulent times"*. This means that economic rationality can be overshadowed by attachment to land and thus to the family farm.

As explained in Chapter 3, one of the challenges for family farmers is that they are small relative to other agents in the food chain, from suppliers of fertiliser and fuel to output purchasers, such as wholesalers, processors and supermarkets. Successful farmers' cooperation can increase the economic sustainability of family farmers through:

- better market position and higher output prices;
- lower prices of inputs;
- easier and cheaper access to information (technical, market or policy);
- lower investment costs and better opportunities for obtaining capital (credit) (Banaszak, 2004).

5.2 The role of policies: CAP and national

The future prospects of family farming in the EU will be influenced by national policies and also by many EU strategies and measures, including:

- the "Europe 2020 Strategy" and its role for growth and employment potential in rural areas;
- the recently approved "CAP package 2014-2020", in particular the new direct payments system and rural development measures;
- the "*Quality Package*", geographical indications and the role of farmers' or local markets;
- all the above in the framework of the new "Multiannual Financial Framework 2014/2020".

Moreover, the future prospects for EU family farming will develop within the policy framework of globalised trade, through bilateral, regional and WTO agreements.

5.2.1 Some national policies affecting the future prospects of family farming

Land market regulations. As discussed in Chapter 3, the nature of land tenure held by farmers has a crucial influence on the structure of farms, e.g. on the size and fragmentation of holdings, and on the owning, renting, purchase and sale of land, which (amongst other factors, such as the availability of capital and family labour) determine the flexibility of family farming. Indirectly, land tenure also affects investment in, e.g. drainage and irrigation, and thus the types and levels of farm production (Davidova and Thomson, 2013).

In the EU15, private land ownership and rights are long-established, and in most of the NMSs post-communist land restitution has by now been largely completed, even if not resulting in optimal farm structures. In most EU MSs, there is legislation to prevent extreme land fragmentation, and to protect the rights of small owner-operators, land tenants and non-farming landowners (Swinnen *et al.*, 2013). However, in some NMSs, legislation which has banned the foreign purchase of agricultural land for seven years after EU accession (12 years in Poland) will shortly end, and this may lead to some further structural change – generally with non-family involvement – in these countries.

Swinnen *et al.* (2013) have illustrated how many MS regulations make the land market less flexible, but at the same time **protect family farmers**, whether a **tenant or a local owner-occupier**. The protection of tenant family farmers includes maximum rental prices depending on soil quality in effect in Belgium, France and the Netherlands. In Austria, a specialised authority – *Grundverkehrsbehörde* – can reject the contract if the rental price is 50 per cent higher than the average price in the region. Legislation also protects farm tenants in Belgium and France, providing for contracts for a minimum of nine years. Tenants also have a pre-emptive right to buy their rented agricultural land if it is for sale. In Scotland, in order to encourage investment on rented farms, the government is examining the possibility of a long-term tenant's "absolute right to buy", despite landowners' concerns that this will further diminish the rented farm sub-sector, which makes it easier for new farmers to enter agriculture.

In several MSs, "land grabbing", i.e. large acquisitions of land, which distorts land prices and restricts the land available to FFs for future growth, is prohibited or controlled. For

example, in Denmark, France, Hungary and Lithuania, there are limitations on the land that can be transacted. In France, *Société d'aménagement foncier et d'établissement rural* (SAFER) can reject the transaction if it considers the land area transacted too large. In France, Hungary, Italy, Latvia and Slovenia, neighbouring farmers have a pre-emptive right to buy a plot of land put on the market. In Austria, in order to avoid absentee landowners and "hobby/week-end" farmers, new owners of agricultural land must live near the plot and demonstrate competence in farming through experience or education.

In Germany, the Federal Act on Land Use Planning requires the adoption of policies to maintain a "rustic agriculture" as an efficient sector of the economy (Gibbard, 1997). This is interpreted by the *Länder* as the maintenance of family farms, adequate rural infrastructure and suitable population densities, through consolidation and measures to improve farm efficiency via investment.

Succession. The legal framework of transfer by inheritance (or purchase from the farm holder) to his/her heirs (successors) is important in order for the younger generation to be able to take over the family farm in an orderly manner. Apart from farm assets, there are frequently several other important aspects to consider, such as liability to taxation (on the value of property transferred, or on future income from farming), transfer of eligibility for subsidy payments, entitlement to grazing or marketing rights, and participation in farmer associations.

The *Code Napoleon* inheritance system, which requires assets to be passed to all children in equal shares, has led to a prevalence of small farms, and fragmented holdings (scattered fields) in many EU MSs. In many cases, this means in practice that the next-generation farmers must take on large debts to pay out their siblings. In order to avoid such fragmentation, several MSs have provided options to compensate heirs who will not take over the farm. For example, in Italy, the *Code Napoleon* enforced until 2006 was followed by a new act which allowed farmers to identify their successor and pass on the farm as a single economic unit (Davidova *et al.*, 2013). In Germany, in the pursuit of structural improvement and farm viability, a number of Federal and *Länder* laws depart from the principle of heir equality and allow the succession to the farm of a single heir, providing that financial compensation - based on farm turnover rather than value - is made to co-heirs (Gibbard, 1997). In the UK, such fragmentation, or compensation burden, has been largely avoided by a tradition of primogeniture whereby the oldest son takes over the farm, while tax law greatly reduces the capital cost of doing so.

The lack of affordable rural housing can often be an impediment to inter-generational turnover of the family business. The older generation are unable to move on and hand over because they may have nowhere to live. Each MS has its own regulations about the obligations of successor(s) to provide for the older generation, but particularly in the poorer NMSs the lack of affordable rural housing may often be an impediment to inter-generational transfer.

These national policy experiences have had different results in terms of the competitiveness and sustainability of family farming. More research and best-practice exchange between the Member States could benefit from the richness of these experiences.

Legislation concerning cooperatives and other producer organizations. A particular area of legislation affecting family farmers as a group is that governing the formation and operation of cooperatives. In some countries, laws and regulations apply specifically to agricultural cooperatives; in others, such legislation applies to all

cooperatives, e.g. in manufacturing and retailing as well as agriculture. Some countries have no specific legislation for cooperatives, which are treated as normal corporate bodies.

Income Support: Policy intervention for income objectives is a form of social security, for which other measures, such as unemployment pay and universal state pensions, normally exist. In some EU MSs, such arrangements apply to farm households as to all others in poverty or retirement. However, special arrangements are sometimes set up for farmers, both for current and retirement incomes. For example, generous allowances, and multi-year averaging of farming income, can reduce tax bills. However, by enabling farm survival through difficult periods, such arrangements may slow up structural change through succession or otherwise (Chang *et al.*, 2014).

As regards retirement income, family farmers in Poland are exempt from pension contributions on farming activities, and contribute only around 5 per cent to their pensions. Early retirement payments have been available (but not universally adopted by MSs) in the EU for several decades.

5.2.2 CAP Pillar 1 and 2, and non-CAP EU policies

As mentioned in Chapter 1, family farming has – at least implicitly – been at the heart of the EU’s Common Agricultural Policy (CAP) since its earliest days (Fennell, 1997). However, there has been a CAP “bias” in favour of larger farms, going back to the initial design of the policy through market intervention which provided support in relation to commercialised/sold farm output. Bigger farmers were therefore the larger beneficiaries. The capitalisation of support into farm land prices and rents probably further disadvantaged smaller family farms. This bias towards the large family and non-family farms continued with single payments in the EU-15 and the NMSs. Therefore the CAP, particularly Pillar 1, cannot be analysed so much in terms of family *versus* non-family farming, but as large *versus* small farms which are overwhelmingly in family hands. Insofar as the Pillar 1 payments represent a more secure stream of income, they facilitate access to credit since borrowers can offer greater repayment capacity (Latruffe *et al.*, 2010).

There have been no CAP measures to encourage the formal incorporation of farms, and the introduction of direct payments as the main CAP Pillar 1 instrument since the 1990s has involved elaborate implementation to ensure that appropriate individuals receive the benefits. Currently, these efforts are focused on developing definitions of “active farmers” (or “non-active” ones, via a “negative list”), in order to support the survival of traditional family farm structures and occupations, and to discourage the development of “sofa” or corporate farming.

Of special importance to small family farmers is the “Small Farmers Scheme” to be introduced within the post-2013 CAP. Under it, a farmer may choose to replace all other CAP direct payments and coupled support by a fixed lump-sum annual payment between €500 and €1250 (minimum €200 for Cyprus, Croatia and Slovenia, and minimum €50 for Malta). Though administratively costly to set up, it is expected that the scheme will reduce red tape in the longer term, and provide a more effective way to support small farms. “*The objective of the scheme should be to support the existing agricultural structure of small farms in the Union without countering the development towards more competitive structures*” (Regulation (EU) No. 1307/2013).

Under the general Lisbon Strategy for job creation and competitiveness, national or regional Rural Development Programmes in the CAP's Pillar 2 cover agricultural adjustment and agri-environmental measures as well as non-agricultural rural support. Although a bias towards non-family corporate farms and against small family farmers in research and development, and advisory system has been detected in non-EU countries this does not apply to the EU, except indirectly. As discussed by Dwyer (2014), rural development measures within the CAP tend to favour larger farmers over smaller ones, largely due to complex and costly application procedures. Dwyer concludes that the reformed CAP for the period after 2013 "offers more scope for funding tailored to the specific needs of small and semi-subsistence farms, but there is no guarantee that this will translate into more cost-effective Rural Development Programmes, and [there is] concern that such developments may be disincentivised by other aspects of the approach", such as excessive programming rules and monitoring requirements.

As argued in the previous section, the survival of family farming depends on reducing discrepancies between rural and urban incomes, by pluriactivity and diversification if not by farm expansion. In this respect, both CAP Pillar 2 and EU regional development policies with Structural and Cohesion Funds have roles to play, on either side of the farmgate.

In the CAP after 2013, MSs are required to design measures under six broad "priorities": Knowledge transfer and innovation; Competitiveness of agriculture; Food chain organisation and risk management; Restoring and preserving ecosystems; Resource efficiency and climate resilience; Social inclusion, poverty reduction, rural development. There should also be greater integration of the CAP with regional and structural funds, and the pursuit of farm modernisation and new technologies/innovation. Some of these areas are discussed below.

Small farmers will be able to receive business start-up aid up to €15,000, and young farmers will be eligible for a combination of measures including start-up grants up to €70,000, general investments in physical assets, training and advisory services. These efforts are clearly designed to support the development of family farming, especially on a smaller (though commercial) scale. Structural change and the creation of more viable family farms are supported with the measure for farm and business development in Pillar 2 providing for annual payments or one-off payments for farmers eligible for the Small Farmers Scheme who permanently transfer their holding to another farmer.

A further area of CAP Pillar 2 – promoting environmentally friendly land management – has perhaps less bias against small family farms, though minimum area requirements and application complexities may still reduce participation. Similar objectives for Pillar 1 under the "greening" component of the reformed Pillar 1 seem likely to disadvantage only large monocultural arable holdings, some of which may be family farms (or family-owned companies) but many will be corporate in nature.

The relative importance of Pillars 1 and 2 in the future CAP will of course depend on the funding available under each. Here, the options for MS flexibility to switch funds between the Pillars are important. The possibility of "reverse modulation" (from Pillar 2 to Pillar 1) suggests that family farms will remain dependent on the traditional framework of direct payments, with the Small Farmers Scheme as a new feature whose impact remains to be seen.

In the EU, even though competition law would restrict producer groups which lead to high degrees of concentration and limitation of competition, there is a general

presumption in favour of recognised “producer organisations” (POs) in sectors such as fruit and vegetables, and dairying, and exceptions from the general competition law. The current CAP reform for 2013-2020 gives an even stronger role to POs and extends them potentially to all farming sectors. There is no special treatment for family farms, but the advantages of cooperative type organisation are more important to such farms than to large corporate farms.

Government efforts to promote the exchange of information about price, quality and future demand, and to support the adoption of market-friendly measures, such as cooperative marketing and market information systems, are likely to favour family farming, especially small-scale family farms, over large corporate farms which have better private access to such information and do not need the scale economies which are otherwise unavailable to small farms. On the other hand, attempts to stabilise market prices confer benefits in proportion to the quantity of output sold (or input purchased), i.e. they benefit larger farms. An exception may be the risk management measure in Pillar 2, even though on economic grounds Tangermann (2011) criticised the use of public policy intervention since it could reduce the use of private risk management strategies by farmers.

In order to improve advice to farmers in the area of innovation and to speed up the adoption of new technologies, the EU has proposed the expansion of the role of the Farm Advisory Systems and the establishment of a European Innovation Partnership for “Agriculture Productivity and Sustainability”.

Finally, the role of family farmers in influencing policy-making (both national and EU) should be noted. In the EU as a whole, the COPA-COGECA organisation (<http://www.copa-cogeca.eu>) represents a longstanding actor pair (for individual producers and cooperatives) respectively in the policy process. It operates on payments made by national farmer organisations, which are generally dominated by larger farms.

In EU MSs where there are specific small farmer organisations, their interests are better represented. In Italy, *Coldiretti* (with more than 1 million members) aims to support and protect family farmers and traditional rural values which have suffered due to changes in rural life as a result of the industrial and post-industrial stage of development. There are also several other organisations in Italy that try to promote “peasant farming”, e.g. the Italian Rural Association actively supports the policy interests of small farmers within the CAP (Davidova *et al.*, 2013).

Arising from the above, there are several potentially important questions concerning the relationship between family farming and the CAP (and other EU policies). These include:

- Should the policy objectives for family farming be more clearly specified (e.g. growth and commercialisation; disappearance and structural change; continuation and sustainability in economic, social and environmental terms), and should specific groups of measures be developed for each?
- Are FFs currently disadvantaged by relative powerlessness in the food chain, by income volatility, by lack of access to resources, and/or by location/natural conditions compared to non-FF?
- Do FFs provide specific public goods or services which will be lost if FFs are left to be restructured under the pressure of market forces without policy support?

- Overall, what makes FFs special and different, and deserving of specific measures under CAP or structural funds?

6. CONCLUSIONS

- Family farming (FF) dominates EU farming, and is likely to continue to do so for the foreseeable future. It embraces a wide category of structures, differing by size, degree of dependence on farming, and scale and importance of family labour and managerial inputs. Given this heterogeneity, any future policy intervention on behalf of FF must start from a clear delineation of which category of family farms is the target of the intervention and the objectives of the intervention.
- In any such delineation, it should be realised that some farming structures which are close to or resemble the defined family farms (such as family-run farms with predominantly hired labour, or farm companies and partnerships between family members, close or more extended) risk being excluded from the target group.
- The strengths of family farming are that the bonds of kinship mean in general that they have more motivation and loyalty to the farm, and that family labour is the residual financial claimant in the business. This lowers costs, particularly the transaction costs of monitoring and rewarding work effort. Also, family labour is more flexible and will even resort to self-exploitation to overcome challenges of weather, other shocks typical of agricultural processes and market volatility. The result is that the European farming sector, dominated by family structures, has shown resilience and ability to survive over centuries.
- These characteristics also mean that family farmers are seen to contribute to the vitality and very fabric of rural communities. Also, because of their intergenerational long-run view, they should have a strong incentive towards environmental care of the land.
- Family farming faces many challenges, although some of those are faced by all structures in agriculture: climate change and the associated problems of extreme weather events, and greater plant and animal diseases, but also stronger competition resulting from a more globalised food system. However, three challenges are specific to EU family farming: smallness, succession and the passing of assets to the next generation, and the powerlessness of even the largest family farms in the food chain up and downstream of the farmgate.
- In response to these challenges, there has been continuous enlargement of farm size accompanied by a decrease in the numbers of farms, driven by technological change in farming. Adopting modern technologies is a particular challenge for the smaller family farmers. Combined with the continuing gap between agricultural and non-agricultural incomes, there is likely to be a further trend to fewer, larger family farms and also a trend to non-family types of organisation of agricultural production. However, uniquely in Europe, this trend could be countered (to a certain extent) by developments increasing the numbers of family farming operations through the disintegration of some large non-family farm organisations in NMSs. Also, continued development of pluriactivity and diversification can contribute to the survivability of family farms.

- The CAP was set up to support European agriculture. However, since its inception, it has been based on supporting agricultural production (directly or indirectly). This inevitably distributes support in proportion to output and offers greater benefits to the larger farmers (family and often non-family).
- The latest CAP reform has explicitly taken some concrete steps towards recognising the challenges of small family farms in the EU. The Small Farmers Scheme is a significant simplification in the support for small farmers, with more certain payments and fewer restrictions. There are also significant ways in which MSs can, if they choose, direct more support to smaller family farmers, e.g. a top up for the first hectares, or coupled payments to sectors dominated by small family farms. But it is probable that, in order to reduce administrative costs, MSs may exclude the smallest family farms by increasing the thresholds for minimum direct payments.
- Pillar 2 of the CAP is potentially much more useful for family farmers, with its support for farm restructuring and modernisation, farmer training, marketing, cooperation and producer groups, rural diversification and rural infrastructure to overcome the disadvantages of smallness and remoteness. Whilst in the period 2000 to 2013 the policy was gradually to shift resources to the Pillar 2 precisely to assist these structural developments, the current possibility of “reverse modulation” (from Pillar 2 to Pillar 1) may lead to a small redistribution of resources to Pillar 1 direct payments.
- Given these limitations in the ability of the CAP to support the smaller family farms, there may be more scope for action through national policies. Ideas on how to do this were recently raised in COMAGRI draft report on the future of small agricultural holdings (http://www.europarl.europa.eu/meetdocs/2009_2014/documents/agri/pr/941/941772/941772en.pdf), for example to allow MSs to “*establish appropriate financial instruments, for example in the shape of microcredits, subsidised interest rates on loans, first instalment repayments or credit guarantees*”, while regional and local authorities could be more involved in providing such support. The Parliament has also called for infrastructure development to help boost direct farm sales, such as traditional products on local and regional markets. The COMAGRI draft report also said small farmers need more help to develop processing capabilities, and, to make this possible, called on the EU Commission to review food safety provisions to reduce red tape. The ability to pursue these measures will depend to a great extent on the political importance which individual MSs attach to small family farmers.

REFERENCES

- Agriculture and Rural Development, FADN: Field of Survey, Available at: http://ec.europa.eu/agriculture/rica/methodology1_en.cfm#tfoococf.
- Alboiu, C., Kuliesis, G and Salengaite, D (2011). The impact of rural development program on agriculture and business/rural development in Lithuania and Romania: a mirror situation. *Agricultural Economic and Rural Development, New Series, Year VIII, no 1*: 77-90.
- Allen, D and Lueck, D. (1998). The Nature of the Farm, *Journal of Law and Economics*, 41(2):343-386.
- Bailey, A. and Suta, C. (2014). Parlons graphique. *EuroChoices*, 13(1) forthcoming.
- Bakucs, L., Fertő, I. and Fogarasi, J.(2009). Investment and financial constraints in Hungarian agriculture. *Economics Letters* 104: 122-124.
- Banaszak, I. (2004) *Agricultural Producer Groups in Poland*, IDARI project presentation, Humboldt University Berlin. Available at www.nuigalway.ie/research/idari/downloads/prague_ilona_pres1.ppt.
- Bijman, J., Iliopoulos, C., Poppe, K., Gijselinckx, C., Hagedorn, C., Hanisch, M., Hendrikse, G., Kühn, R., Ollila, P. Pyykkönen, P. and van der Sangen, G. (2012). *Support for Farmers' Cooperatives: Final Report*. Wageningen: Wageningen UR. Available at http://ec.europa.eu/agriculture/external-studies/2012/support-farmers-coop/fulltext_en.pdf.
- Blancard, S., Boussemart, J-P., Briec, W. and Kerstens, K. (2006). Short- and long-run credit constraints in French agriculture: A directional distance function framework using expenditure-constrained profit functions. *American Journal of Agricultural Economics* 88(2): 351-364.
- Chang, H.H., Meyerhoefer, C. D. and Just, D. R. (2014) How Do Health and Social Insurance Programmes Affect the Land and Labour Allocations of Farm Households? Evidence from Taiwan, *Journal of Agricultural Economics*, 65 (1): 68-86.
- Christiaensen, L. and Swinnen, J. (1994). Economic, institutional and political determinants of agricultural production structures in Western Europe. Department of Agricultural Economics, Katholieke Universiteit Leuven, Working paper 1994/11.
- Ciaian, P., Kanacs, d'A., Swinnen, J., Van Herck, K. and Vranken, L. (2012a). *Key Issues and Developments in Farmland Sales Markets in the EU Member States and Candidate Countries*, FP7 Factor Markets project, Working Paper No. 12. Available at www.factormarkets.eu/system/files/FM_WP12%20CEPS%20on%20Key%20Issues%20in%20Farmland%20Sales%20Markets_D14.1_final.pdf.
- Ciaian, P., Kanacs, d'A., Swinnen, J., Van Herck, K. and Vranken, L. (2012b). *Key Issues and Developments in Farmland Rental Markets in EU Member States and Candidate Countries*. FP7 Factor Markets project, Working Paper No. 13. Available at www.factormarkets.eu/system/files/FM_WP13%20CEPS%20on%20Key%20Issues%20in%20Farmland%20Rental%20Markets_D14.2_final.pdf.

- Council of the European Union (26 July 2013). Family farming prospects in the context of globalization, Discussion paper. 12786/13, AGRI516. Available at: http://static.eu2013.it/uploads/documents/Programos/Discussion%20documents/Informal_AGRI_DP.PDF.
- Court of Auditors (2003). Special report No 4/2003 concerning rural development: support for less-favoured areas, together with the Commission's replies. *Official Journal*, C151, Vol. 46, 27 June 2003.
- Darnhofer, I. (2010). Strategies of family farms to strengthen their resilience. *Environmental Policy and Governance*, 20, 212-222.
- Darpeix, A., Bignebat, C. and Perrier-Cornet, P. (2014). Demand for seasonal wage labour in agriculture: What does family farming hide? *Journal of Agricultural Economics*, 65(1), 257-272.
- Davidova, S., Bailey, A., Dwyer, J., Erjavec, E., Gorton, M. and Thomson, K. (2013) *Semi-Subsistence Farming – Value and Directions of Development*, study prepared for the European Parliament Committee on Agriculture and Rural Development. Available at: <http://www.europarl.europa.eu/committees/en/AGRI/studiesdownload.html?language=EN&file=93390>.
- Davidova S. and Thomson K. (2013). Family Farming: a Europe and Central Asia Perspective. Background Report for Regional Dialogue on Family Farming: Working towards a strategic approach to promote food security and nutrition [Draft]. Available at: http://www.fao.org/fileadmin/user_upload/Europe/documents/Events_2013/FF_EUCA_P_en.pdf.
- Energy & Environment (2007). *Adaptation to Climate Change in the Agricultural Sector: Executive Summary*, paper AGRI-2006-G4-05. http://ec.europa.eu/agriculture/analysis/external/climate/ex_sum_en.pdf.
- EU June 2012. Agricultural Economic Brief No 6. Generational renewal in EU agriculture: Statistical background. Available at: http://ec.europa.eu/agriculture/rural-area-economics/briefs/pdf/06_en.pdf.
- European Commission (2008). DG Agriculture and Rural Development. Note to the file: Other gainful activities: pluriactivity and farm diversification in EU-27, Brussels 17 juin 2008, LTB D(2008) 17488.
- European Commission (2009). *Towards a Better Targeting of the Aid to Farmers in Areas with Natural Handicaps*, Staff Working Document accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, paper SEC(2009) 450, Impact Assessment Summary and Annex 1. Brussels. Available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=sec:2009:0451:fin:en:pdf>, http://ec.europa.eu/agriculture/rurdev/lfa/comm/ia_annex1_1_en.pdf and http://ec.europa.eu/agriculture/rurdev/lfa/comm/ia_annex1_2_en.pdf.
- European Commission (2013a). Agriculture and Rural Development *Family Farming*. Available at: http://ec.europa.eu/agriculture/family-farming/index_en.htm.

- European Commission (2013b). Executive summary. Public consultation “The role of family farming, key challenges and priorities for the future”. Available at: http://ec.europa.eu/agriculture/consultations/family-farming/summary-report_en.pdf.
- European Commission (2013c). *Agriculture and Climate Change*. Agriculture and Rural Development website. Available at: http://ec.europa.eu/agriculture/climate-change/index_en.htm.
- FAO (2013) 2014 IYFF FAO Concept Note (Modified May 9, 2013). Available at: http://www.fao.org/fileadmin/templates/nr/sustainability_pathways/docs/2014_IYFF_FAO_Concept_Note.pdf.
- Farm Structure Survey (2010). Available at: <http://epp.eurostat.ec.europa.eu/portal/page/portal/agriculture/data/database>.
- Feichtinger, P. and Salhofer, K. (2011). *The Valuation of Agricultural Land and the Influence of Government Payments*, FP7 Factor Markets project, Working Paper No. 10. Available at <http://www.factormarkets.eu/content/key-issues-and-developments-farmland-rental-markets-eu-member-states-and-candidate-countries>.
- Fennell, R. (1997) *The Common Agricultural Policy*. Oxford: Clarendon.
- Gasson, R. and Errington, E. (1993). *The Farm Family Business*. CAB International, Wallingford, UK.
- Gibbard, R. (1997). The relationship between European Community agricultural Structural Policies and their implementation and agricultural succession and inheritance within Member States. Available at: <http://www.reading.ac.uk/LM/LM/fulltxt/0697.pdf>.
- Gorton, M. and Davidova, S. (2004). Farm Productivity and Efficiency in the CEE Applicant Countries: a Synthesis of Results. *Agricultural Economics*, 30, 1-16.
- Gorton, M., Salvioni, C. and Hubbard, C. (2014). Semi-subsistence farms and alternative food supply chains. *EuroChoices*, 13(1) forthcoming.
- Hill, B. (1993). The ‘Myth’ of the family farm: Defining the family farm and assessing its importance in the European Community. *Journal of Rural Studies*, 9(4), 359-370.
- Ingram, J. and Kirwan, J. (2011). Matching new entrants and retiring farmers through farm Joint Ventures: insights from the Fresh Start Initiative in Cornwall, UK, *Land Use Policy*, 4, 917-927.
- Kasimis, C. and Papadopoulos, A. (2013). Rural Transformations and Family Farming in Contemporary Greece, Ch. 11 in Ortiz-Miranda, D., Moragues-Faus, A. and Arnalte-Alegre, E. (eds) *Agriculture in Mediterranean Europe: between Old and New Paradigms*, Research in Rural Sociology and Development, Vol. 19, 263–293. Emerald.
- Kimhi, A. and Lopez, R. (1999). A note on farmers’ retirement and succession considerations: Evidence from a household survey. *Journal of Agricultural Economics*, 50(1), 154-162.

- Latruffe, L., Davidova, S., Douarin, E., Gorton, M. "Farm Expansion in Lithuania after Accession to the EU: The Role of CAP Payments in Alleviating Potential Credit Constraints", *Europe-Asia Studies*, 62(2) (2010), 351-365.
- Lerman, Z. (2012). Land reform and farm performance in Europe and Central Asia: a 20 year perspective. The Hebrew University of Jerusalem. Discussion paper No 2.12. Available at: http://ageconsearch.umn.edu/bitstream/120260/2/Lerman_ECALandReform_WP2012_1.pdf.
- Matthews, A. (2012). *The greying of Europe's farmers*, capreform.eu blogsite. Available at: <http://capreform.eu/the-greying-of-european-farmers/>.
- Matthews, A. (2013). *Family farming and the role of policy in the EU*, capreform.eu blogsite. Available at: <http://capreform.eu/family-farming-and-the-role-of-policy-in-the-eu>.
- Möllers, J. and Buchenrieder, G. (2011). Effects of Rural Non-farm Employment on Household Welfare and Income Distribution of Small Farms in Croatia. *Quarterly Journal of International Agriculture* 50 (3), 217-235.
- OECD (2005). Farm structure and farm characteristics - Links to non-commodity outputs and externalities. AGR/CA/APM(2004)11/Final OECD: Paris.
- European Parliament. Committee on Agriculture and Rural Development. On the future of small agricultural holdings (2013/2096 (INI). Draft report. Available at: http://www.europarl.europa.eu/meetdocs/2009_2014/documents/agri/pr/941/941772/941772en.pdf.
- Palacios, S. (1998). Farmers and the implementation of the EU Nirtates Directive in Spain. *Sociologia Ruralis*, 38(2), 146-162.
- Pfeffer, M. (1989). Part-time farming and the stability of family farms in the Federal Republic of Germany. *European Review of Agricultural Economics*, 16, 425-444.
- Regidor, G. (2012). EU measures to encourage and support new entrants. European Parliament, Policy Department B, PE 495.830, September 2012.
- Salasan, C. and J. Fritzsche (2009). The Role of Farm Activities for Overcoming Rural Poverty in Romania. In: Buchenrieder, G. and J. Möllers (eds). *Structural Change in Europe's Rural Regions - Farm Livelihoods Between Subsistence Orientation, Modernization and Non-farm Diversification*. Vol. 49. IAMO Studies Series, pp. 23-41.
- Salvioni, C., Papadopoulou, E. and Dos Santos, M. (2014). Small Farm Survival in Greece, Italy and Portugal. *EuroChoices*, 13(1) forthcoming.
- Swinnen, J. and Vranken, L. (2008). Review of transitional restrictions on acquisition of agricultural land in NMS. CEPS. Available at: http://ec.europa.eu/internal_market/capital/docs/study_en.pdf.
- Swinnen, J., Van Herck, K. and Vranken, L. (2013). Land market regulations in the EU in Swinnen, J, and Knops, L (eds.) *Land, labour and capital markets in European agriculture: Diversity under common policy* (CEPS), pp. 154-170.

- Tangermann, S. (2011) *Risk Management in Agriculture and the Future of the EU's Common Agricultural Policy*. International Centre for Trade and Sustainable Development. Issue Paper 34. Available at <http://ictsd.org/i/publications/108961>.

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **B** STRUCTURAL AND COHESION POLICIES

Role

The Policy Departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas

- Agriculture and Rural Development
- Culture and Education
- Fisheries
- Regional Development
- Transport and Tourism

Documents

Visit the European Parliament website:
<http://www.europarl.europa.eu/studies>

PHOTO CREDIT:
iStock International Inc., Image Source, Photodisk, Phovoir, Shutterstock



ISBN 978-92-823-5473-5
doi: 10.2861/55145